Application Proof of

Kayou Inc.

(the "**Company**")

(Incorporated in the Cayman Islands with limited liability)

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Kayou Inc.

(Incorporated in the Cayman Islands with limited liability)

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Number of [REDACTED] under the [REDACTED]	**:**	**[REDACTED] Shares (subject to the [REDACTED])**
Number of [REDACTED]	**:**	**[REDACTED] Shares (subject to [REDACTED])**
Number of [REDACTED]	**:**	**[REDACTED] Shares (subject to [REDACTED] and the [REDACTED])**
Maximum [REDACTED]	**:**	**[REDACTED]**
Nominal value	**:**	**US$0.000001 per Share**
[REDACTED]	**:**	**[REDACTED]**

***Joint Sponsors,* [REDACTED]**

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EXPECTED TIMETABLE[1]

[**REDACTED**]

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This summary aims to give you an overview of the information contained in this Document. As it is a summary, it does not contain all the information that may be important to you. You should read the whole Document before you decide to [**REDACTED**] *in the* [**REDACTED**]. *There are risks associated with any* [**REDACTED**]. *Some of the particular risks in* [**REDACTED**] *in the* [**REDACTED**] *are set out in the section headed "Risk Factors" in this Document. You should read that section carefully in full before you decide to* [**REDACTED**] *in the* [**REDACTED**].

OVERVIEW

Our Mission

To share joy and inspire positivity.

Our Vision

To become a global leading pan-entertainment product group, connecting with and providing long-lasting companionship to consumers.

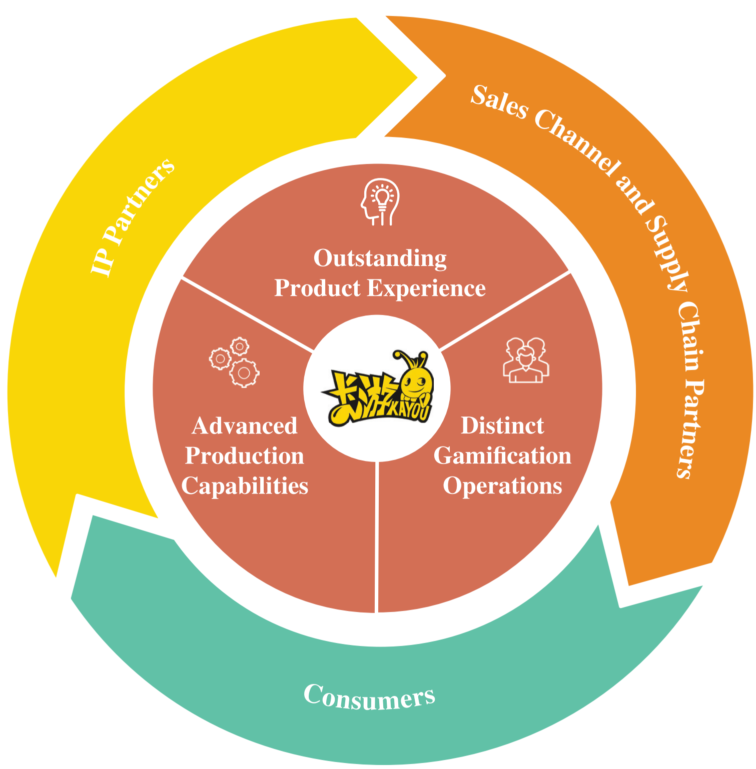
Who We Are

We are a pioneer and leader in the pan-entertainment product industry in China. Dedicated to offering high-quality, fun and interactive products, we bring joy and positivity to our ever-broadening consumer base. Our industry positions in China in terms of GMV in 2022 according to CIC are as follows:

- We ranked second in the pan-entertainment product industry and the pan-entertainment toy industry;
- We ranked first in the fast-growing trading card sector of the pan-entertainment toy industry; and
- We ranked seventh in the pan-entertainment stationery industry.

Having pioneered the trading card business in China, we have benefited from a unique and integrated business model anchored on outstanding product experience, distinct gamification operations and advanced production capabilities. This business model encompasses key components of the industry value chain and places us in a pivotal role to foster the pan-entertainment culture and advance industry standards. While solidifying our leadership in trading cards, we have enriched our toy product offerings to introduce other product categories such as figures, trading card collection books, badges, stickers and acrylic stands. We have also branched out into stationery products to roll out products such as pens and notebooks. We have strategically built this diverse product mix to meet a broad spectrum of consumer needs. To lay a solid foundation for continuous design and launch of new products, we had curated a strong IP matrix of 44 IPs as of September 30, 2023. We have also amplified our product values with cognitive development, fun and competition through distinct gamification operations. With product designs and innovations benefiting from quality IP content and craftsmanship, and fueled by advanced production technologies and strong supply efficiency, we can consistently roll out products that not only feature outstanding collectability, playability and functionality, but also resonate with consumers. Being a trusted provider of long-lasting companionship to consumers, we have built, and continue to grow, a large consumer base.

We are unwaveringly committed to our mission to share joy and inspire positivity. Our brand and products are widely recognized in China. Dedicated to conveying positive values through our operations across product design, TCG events and community endeavors, we are building up a trustworthy brand image among the youth, their parents and the wider public. For example, we have launched the Four Classics of Chinese Novels trading cards in collaboration with renowned artist Mr. Dai Dunbang. The series promotes awareness of Chinese traditional culture by showcasing classic figures and scenes in forms popular among consumers, in particular the youth. In addition, we have consistently sponsored charitable and other public welfare activities, with a particular aim to support disadvantaged groups such as children in poverty or suffering from autism.



Our Value Propositions

Our leading industry position in China, extensive experience and core competencies have culminated in compelling value propositions for the key stakeholders engaged in our business model:

Consumers:

- We offer high-quality, fun and interactive products;
- We fulfill multifaceted entertainment and social interaction needs by connecting consumers and creating bonding experience; and
- We provide long-lasting companionship to consumers along with their growth.

IP Partners:

- We enhance IP popularity; and
- We extend commercialization opportunities to IP partners and expand their audience base, promoting the inclusivity of art.

Sales Channel and Supply Chain Partners:

- We continually create business opportunities for mutual growth; and
- We facilitate business upgrades for our sales channel and supply chain partners through in-depth collaborations.

OUR STRENGTHS

We believe that the following strengths contribute to our success:

- A pioneer and leader in the pan-entertainment product industry in China;
- Strong product design and innovation capabilities that create a diverse and continually upgrading product mix;
- Distinct and fun gamification operations leading to comprehensive consumer engagement and strong brand recognition;
- Diverse and high-quality IP matrix and proven IP operation capabilities;
- Efficient operations underpinned by advanced production capabilities and supply chain management;
- Nationwide sales network with extensive consumer reach; and
- Visionary and seasoned founder and management team.

See "Business – Our Strengths."

OUR STRATEGIES

We intend to pursue the following strategies to further grow our business:

- Expand product categories and enrich product mix;
- Diversify our IP matrix and strengthen IP and gamification operations;
- Enhance product craftsmanship and improve production capabilities;
- Strengthen our multi-channel sales network;
- Attract, nurture and retain talents; and
- Proactively pursue overseas expansion.

See "Business – Our Strategies."

OUR BRAND AND PRODUCTS

Kayou has become one of the most widely recognized pan-entertainment product brands in China. Under our singular and strong brand Kayou, we convey the message of our mission and vision clearly and concisely to consumers. We have built, and continue to enrich, a diverse product mix and an extensive IP matrix. Our strong brand power augments synergies among our product offerings, sustaining our long-term growth.

Toys, particularly trading cards, are our core products. We have pioneered the trading card business in China, according to CIC. While solidifying our leadership in trading cards, we have enriched our toy product offerings with other toy categories. We have also branched out into stationery products. The following table sets forth a breakdown of our revenue by product category for the periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2021		2022		2022		2023	
	(RMB in millions)	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*
					(Unaudited)			
Toys	2,298.3	100.0	4,110.2	99.5	3,644.0	99.8	1,817.7	93.1
– Trading cards	2,169.5	94.4	3,930.2	95.1	3,479.7	95.3	1,675.0	85.8
– Figures	–	–	–	–	–	–	80.1	4.1
– Other toys(1)	128.8	5.6	180.0	4.4	164.3	4.5	62.6	3.2
Stationery products	–	–	20.9	0.5	8.1	0.2	133.8	6.9
Total	2,298.3	100.0	4,131.1	100.0	3,652.1	100.0	1,951.5	100.0

Note:

(1) Primarily include trading card collection books, badges and stickers.

See "Business – Our Brand and Products."

OUR GAMIFICATION OPERATIONS

We have injected distinctive gameplay elements into our products to reinforce the collectability and playability of our products. For example, we design product series themed on IPs with complete storylines and we portray the condensed stories across each product under such series. We also classify our products into rarities and have a full-fledged rarity system. Such approaches keep our collection system fresh and engaging. In addition, we elaborately devise gameplay rules for our products, such as trading cards and figures. The well-designed gameplay rules made our products one of the preferred choices for entertainment and social interactions that connect family members, friends and fellow gameplayers. We constantly innovate gameplay designs to continually bring excitement, novelty and fun to consumers to maintain the market momentum of our products. In particular, we started the operation of Hero Battle TCG events since 2020. During the Track Record Period and up to the Latest Practicable Date, we had successfully held over 3,000 competitions across over 100 cities in China. We believe that our gamification operations have enlarged our consumer base and bolstered our brand recognition.

See "Business – Our Gamification Operations."

OUR IP MATRIX AND OPERATIONS

We had curated a diverse IP matrix of 44 IPs as of September 30, 2023, catering to a broad spectrum of consumers. We have been persistently enriching our IP matrix through licensing from IP partners and development of proprietary IPs. Our strong IP matrix lays a solid foundation for continuous design, development and launch of new pan-entertainment products. Our valuable industry insights and strong IP operation capabilities spanning across IP sourcing, development to commercialization enable us to enhance IP popularity, extend IP lifespan and maximize IP commercial value. Such compelling values can in turn attract more IP resources to form a virtuous cycle of mutual growth.

See "Business – IP Matrix and Operations."

OUR CRAFTSMANSHIP AND PRODUCTION

We stay at the forefront of production technologies and use of materials to ensure the craftsmanship and quality of our products. Leveraging advanced technologies and production equipment, we are able to continuously improve the texture and appearance of our products and enhance production efficiency.

We had three production bases in operation and two production bases under construction as of the Latest Practicable Date. Strategically located in Zhejiang and Guangdong provinces with abundant consumer goods supply chain resources, our production bases can efficiently support our sales network nationwide. Our production base in Kaihua, Zhejiang commenced operation in August 2020 and primarily produces trading cards. Our production base in Yiwu, Zhejiang commenced operation in March 2023 and primarily produces stationery products. Our production base in Dongguan, Guangdong commenced operation in April 2023 and primarily packages figures. Additionally, we had two production bases under construction in Yiwu, Zhejiang as of the Latest Practicable Date.

See "Business – Production and Procurement – Production."

OUR SALES NETWORK AND MARKETING

Strategically expanding our online and offline presence in multiple channels, we have built a nationwide sales network consisting of (i) distributor channels; (ii) direct sales channels; and (iii) retail channels. We generally stay at the forefront of sales channel evolution and strategically position ourselves to be prominent in the channels where consumers choose to shop. We had cultivated a robust nationwide distributor network with over 200 distributors in 31 provinces as of September 30, 2023. We have also been exploring other sales channels such as online and offline self-operated stores, retail KA channels and vending machines to accommodate varied consumption scenarios, enlarge consumer base and offer differentiated purchase experience.

The following table sets forth our revenue by sales channels for the periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2021		2022		2022		2023	
	(RMB in millions)	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*
					(Unaudited)			
Distributor channels	2,225.0	96.8	3,826.9	92.7	3,405.2	93.3	1,585.0	81.2
Direct sales channels	17.6	0.8	215.8	5.2	180.1	4.9	191.4	9.8
Retail channels	55.7	2.4	88.4	2.1	66.8	1.8	175.1	9.0
Total	2,298.3	100.0	4,131.1	100.0	3,652.1	100.0	1,951.5	100.0

See "Business – Sales Network and Marketing."

OUR CUSTOMERS AND SUPPLIERS

During the Track Record Period, our customers mainly consisted of distributors, retail KA partners and individual purchasers. Revenue from our five largest customers in each of 2021, 2022 and the nine months ended September 30, 2023 was RMB481.1 million, RMB795.5 million and RMB400.6 million, respectively, and accounted for 21.0%, 19.2% and 20.6% of our total revenue for the same respective periods. All of our five largest customers during the Track Record Period were our distributors. See "Business – Our Customers."

During the Track Record Period, our suppliers mainly consisted of IP partners and raw material suppliers. Purchases from our five largest suppliers in each of 2021, 2022 and the nine months ended September 30, 2023 was RMB566.9 million, RMB624.2 million and RMB260.1 million, respectively, and accounted for 56.6%, 47.4% and 40.2% of our total purchase amounts for the same respective periods. Purchases from our largest supplier in each of 2021, 2022 and the nine months ended September 30, 2023 accounted for 19.0%, 21.9% and 22.0% of our total purchase amounts in the respective periods. See "Business – Our Suppliers."

COMPETITIVE LANDSCAPE

We compete in the pan-entertainment product industry in China. The size of the fast-growing pan-entertainment product industry in China reached RMB129.7 billion in terms of GMV in 2022 at a CAGR of 17.3% from 2017 to 2022, and is expected to reach RMB230.4 billion in 2027 at a CAGR of 12.2% from 2022 to 2027, according to CIC. The top five companies in the pan-entertainment product industry in China accounted for 25.9% of the total market share in terms of GMV in 2022, according to CIC. Our industry positions in China in terms of GMV in 2022 according to CIC are as follows: (i) we ranked second in the pan-entertainment product industry and the pan-entertainment toy industry; (ii) we ranked first in the fast-growing trading card sector of the pan-entertainment toy industry; and (iii) we ranked seventh in the pan-entertainment stationery industry. High-quality products showcasing resonating content and fine craftsmanship offer enjoyable consumer experience and stand better opportunities in attracting consumers. As a leading pan-entertainment product brand in China with strong product design and development capabilities, robust IP and gamification operations, advanced production capabilities and nationwide sales network, we are well-positioned to seize growth opportunities boosted by industry tailwinds.

See "Industry Overview."

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables present our summary historical financial information for the periods or as of the dates indicated. This summary has been derived from our historical financial information set forth in the Accountants' Report in Appendix I to this Document. The summary historical financial data set forth below should be read together with, and is qualified in its entirety by reference to, the historical financial information included in the Accountants' Report in Appendix I to this Document, including the accompanying notes, and the information set forth in "Financial Information." Our historical financial information was prepared in accordance with IFRSs.

Key Items of Consolidated Statements of Profit or Loss

The following table sets forth a summary of our results of operations for the periods indicated:

	Year ended December 31,		Nine months ended September 30,	
	2021	**2022**	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*
			(Unaudited)	
Revenue	2,298.3	4,131.1	3,652.1	1,951.5
Cost of sales	(963.3)	(1,288.8)	(1,101.3)	(637.2)
Gross profit	1,335.0	2,842.3	2,550.8	1,314.3
Selling and distribution expenses	(181.2)	(375.0)	(283.5)	(296.2)
Administrative expenses	(218.5)	(666.6)	(448.8)	(583.2)
Other income and gains	6.4	44.9	33.6	55.6
Other expenses	(20.3)	(2.3)	(1.2)	(5.7)
Reversal of impairment losses/(impairment losses) on financial assets, net	10.8	(40.3)	(38.6)	(2.5)
Operating profit	932.2	1,803.0	1,812.3	482.3
Finance costs	(1.8)	(5.3)	(3.9)	(5.3)
Fair value changes of financial liabilities at fair value through profit or loss	(909.2)	(1,716.1)	(1,548.2)	(111.6)
Profit before tax	21.2	81.6	260.2	365.4
Income tax expense	(174.4)	(377.6)	(375.4)	(105.2)
Profit/(loss) for the year/period	(153.2)	(296.0)	(115.2)	260.2
Attributable to:				
Owners of the parent	(153.2)	(296.0)	(115.2)	260.2

Non-IFRS Measure

We use adjusted net profit (*non-IFRS measure*) in evaluating our operating results during the Track Record Period, which is not required by or presented in accordance with IFRSs as an additional financial measure to supplement our consolidated financial statements, which are presented in accordance with IFRSs. We believe that the non-IFRS measure provides useful information to [**REDACTED**] in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted net profit (*non-IFRS measure*) may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

We define adjusted net profit (*non-IFRS measure*) as net loss or profit for the periods adjusted by adding back fair value changes of financial liabilities at fair value through profit or loss, share-based payment expenses and [**REDACTED**] expenses. The following table reconciles our adjusted net profit (*non-IFRS measure*) for the periods presented to the most directly comparable financial measures calculated and presented in accordance with IFRSs, which is net profit or loss for the periods:

	Year ended December 31,		**Nine months ended September 30,**	
	2021	**2022**	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*	*(RMB in millions)*
Reconciliation of net profit/(loss) to adjusted net profit (*non-IFRS measure*)				
Net profit/(loss) for the year/period	(153.2)	(296.0)	(115.2)	260.2
Add:				
– *Fair value changes of financial liabilities at fair value through profit or loss*[1]	909.2	1,716.1	1,548.2	111.6
– *Share-based payment expenses*[2]	39.4	199.6	134.6	203.3
– [**REDACTED**]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net profit (*non-IFRS measure*)	795.4	1,619.7	1,567.6	578.1

Notes:

(1) Fair value changes of financial liabilities at fair value through profit or loss primarily represent changes in the fair value of our Series A Preferred Shares and our commitment derivatives relating to the issuance of Series A Preferred Shares, which are affected by changes in the valuation of our Company. We do not expect to record any further fair value changes of financial liabilities at fair value through profit or loss after [**REDACTED**] due to the reclassification of financial liabilities at fair value through profit or loss from liabilities to equity as a result of the conversion of Series A Preferred Shares into Ordinary Shares upon [**REDACTED**]. See "Financial Information – Indebtedness – Financial Liabilities at Fair Value Through Profit or Loss" and Note 2.4 and Note 27 of Appendix I to this Document.

(2) Share-based payment expenses represent the non-cash expenses incurred in relation to our share award to eligible consultants of our Group. See Note 31 of Appendix I to this Document.

(3) [**REDACTED**]

See "Financial Information – Description of Major Components of Our Results of Operations."

Selected Items from the Consolidated Statements of Financial Position

The following table sets forth selected information from our consolidated statements of financial position as of the dates indicated.

	As of December 31,		As of September 30,
	2021	2022	2023
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions) (Unaudited)*
Total non-current assets	924.5	3,016.7	3,271.9
Total current assets	1,592.8	1,225.0	1,628.0
Total assets	2,517.3	4,241.7	4,899.9
Total current liabilities	2,457.2	4,142.5	4,371.5
Total non-current liabilities	115.7	252.1	217.6
Total liabilities	2,572.9	4,394.6	4,589.1
Net assets/(liabilities)	(55.6)	(152.9)	310.8
Share capital	–	–	–
Reserves	(55.6)	(152.9)	310.8
Total equity/(deficiency in assets)	(55.6)	(152.9)	310.8

See "Financial Information – Discussion of Selected Items from the Consolidated Statements of Financial Position."

Summary of the Consolidated Statements of Cash Flows

The following table sets forth our cash flow for the periods indicated:

	Year ended December 31,		Nine months ended September 30,	
	2021	**2022**	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*
			(Unaudited)	
Net cash flows generated from operating activities	915.4	1,731.9	1,714.9	773.0
Net cash flows used in investing activities	(676.7)	(2,102.1)	(1,867.7)	(334.4)
Net cash flows generated from/(used in) financing activities	846.6	(127.2)	(161.6)	(52.6)
Net increase/(decrease) in cash and cash equivalents	1,085.3	(497.4)	(314.4)	386.0
Cash and cash equivalents at the beginning of the year/period	0.8	1,091.1	1,091.1	594.2
Net effect of foreign exchange rate changes	5.0	0.5	(3.3)	0.1
Cash and cash equivalents at the end of the year/period	1,091.1	594.2	773.4	980.3

See "Financial Information – Liquidity and Capital Resources."

RISK FACTORS

Our business and the [**REDACTED**] involve certain risks as set out in "Risk Factors." Some of the major risks we face include:

- Our success depends in part on our capability to efficiently design, develop and produce high-quality products catering to consumer demand. If we fail to stay attuned to evolving consumer demand, our competitiveness may be materially and adversely affected.

- The industry in which we operate may not develop as we expected, and we may fail to compete effectively against our existing or potential competitors.

- Any deterioration in the recognition or popularity of existing IPs in our IP matrix or any failure in successfully sourcing, developing or commercializing new IPs may materially and adversely affect our business, financial condition and results of operations.

- We face risks associated with IP licensing. If we fail to obtain, maintain or renew IP license arrangements on favorable terms, or if our IP partners fail to maintain and protect their IPs, our business, financial condition and results of operations may be materially and adversely affected.

- We sell our products through a multi-channel sales network consisting of distributor, direct sales and retail channels. If we fail to develop, manage, monitor and coordinate these sales channels effectively, our business, financial condition and results of operations may be materially and adversely affected.

- Our production technologies may not consistently meet consumer demand for craftsmanship. Failure to keep up with technological advancements in production may impair our competitive edge in the industry.

- Our future success depends on our ability to cost-effectively improve production capabilities and expand production capacity.

See "Risk Factors."

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the [**REDACTED**], Mr. Li and Ms. Qi, through Liqibin Holdings Limited and Qiyan Holdings Limited, respectively, will be interested in approximately [**REDACTED**]% of our total share capital (assuming the [**REDACTED**] is not exercised) or approximately [**REDACTED**]% of our total share capital (assuming the [**REDACTED**] is exercised in full). Therefore, Mr. Li, Ms. Qi, Liqibin Holdings Limited and Qiyan Holdings Limited will constitute our Controlling Shareholders upon the [**REDACTED**].

We entered into (i) certain lease agreements with Ms. Qi, pursuant to which certain subsidiaries of our Company agreed to rent properties as their office and staff dormitory; and (ii) certain framework agreements with connected persons in connection with Mr. Li or Ms. Qi, pursuant to which we procure raw materials from, distribute our products to, and enter into franchise arrangement with, relevant connected persons. We are of the view that these transactions will not give rise to any concerns on reliance issues upon [**REDACTED**]. See "Connected Transactions" and "Relationship with Our Controlling Shareholders – Independence from Our Controlling Shareholders – Operational Independence."

THE PRE-[REDACTED] INVESTMENT

In 2022, our Company received the Pre-[**REDACTED**] Investment from HongShan and Tencent. See "History, Reorganization and Corporate Structure – The Pre-[**REDACTED**] Investment."

USE OF [REDACTED]

We estimate that we will receive net [**REDACTED**] of approximately HK$[**REDACTED**] from the [**REDACTED**] after deducting the [**REDACTED**] and other estimated expenses paid and payable by us in connection with the [**REDACTED**], assuming the [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the [**REDACTED**] stated in this Document) and assuming that the [**REDACTED**] is not exercised. We intend to use the net [**REDACTED**] from the [**REDACTED**] for the purposes set forth below:

- approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used for production facility expansion and upgrade.

- approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used to enrich our IP matrix and strengthen IP operations.

- approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used for product design and development to enrich our product mix with more product categories and series.

- approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used to optimize our warehousing and logistics capabilities.

- approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used for digitalization of our business operations.

- approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used for our brand promotion.

- approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used for working capital and general corporate purposes.

See "Future Plans and Use of [**REDACTED**]."

[**REDACTED**]

RECENT DEVELOPMENT

Our Directors confirmed that, as of the date of this Document, there had been no material adverse change in our financial or trading position or prospects since September 30, 2023, being the end date of the periods reported in Appendix I to this Document, and there had been no event since September 30, 2023 that would materially affect the information as set out in the Accountants' Report in Appendix I to this Document.

In January 2024, we adopted the Pre-[**REDACTED**] Equity Incentive Plan and issued 1,307,189 Shares at a price of US$0.0001 per Share to eligible participants. See "Appendix V – Statutory and General Information – D. Share Incentive Scheme."

[**REDACTED**]

DIVIDENDS

No dividends have been paid or declared by our Company during the Track Record Period.

We are a holding company incorporated under the laws of the Cayman Islands. Under the Cayman Islands law, our Company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. As advised by our Cayman Islands counsel, subject to the above, there is no restriction under the Cayman Islands law for our Company to declare and pay a dividend despite our accumulated losses. Our Board has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our Shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our Board. A decision to declare or to pay any dividends in the future, and the amount of any such dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, payments by our subsidiaries of cash dividends to us, business prospects, statutory, regulatory and contractual restrictions on our declaration and payment of dividends and other factors that our Board may consider important. We do not have a pre-determined dividend payout ratio. No dividend will be declared or payable except out of our profits and reserves lawfully available for distribution. There can be no assurance that dividends of any amount will be declared or distributed in any year.

[**REDACTED**]

DEFINITIONS

In this Document, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed "Glossary of Technical Terms" in this Document.

"Accountants' Report"	the report of our Company's reporting accountant, Ernst & Young, dated [●], the text of which is set out in Appendix I to this Document
"affiliate(s)"	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"AFRC"	the Accounting and Financial Reporting Council of Hong Kong
"Articles" or "Articles of Association"	the amended and restated articles of association of our Company, conditionally adopted on [●] with effect from the [**REDACTED**], and as amended from time to time, a summary of which is set out in Appendix III to this Document
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board" or "Board of Directors"	the board of Directors of our Company
"Business Day"	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands

[**REDACTED**]

"Cayman Companies Act" or "Companies Act"	the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time

[**REDACTED**]

[**REDACTED**]

"China", "mainland China" or "PRC"	the People's Republic of China for the purpose of this Document and for geographical reference only, except where the context requires, references in this Document to "China", "mainland China" and the "PRC" do not apply to Hong Kong, Macau Special Administrative Region and Taiwan Region

"China Insights Consultancy" or "CIC"	China Insights Industry Consultancy Limited, an Independent Third Party and a market research firm engaged by our Company to prepare an industry report, the details of which are set out in the section headed "Industry Overview" in this Document
"CIC Report"	an industry report commissioned by us and issued by CIC, as referred to in the section headed "Industry Overview" in this Document
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and supplemented from time to time
"Company", "our Company", "the Company", "we" or "us"	Kayou Inc. (卡游有限公司), an exempted company incorporated in the Cayman Islands with limited liability on May 27, 2021
"connected person(s)"	has the meaning ascribed to it in the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it in the Listing Rules and, unless the context otherwise requires, includes Mr. Li, Ms. Qi, Liqibin Holdings Limited and Qiyan Holdings Limited
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"Director(s)"	the director(s) of our Company or any one of them
"Document"	this document
"EIT"	enterprise income taxation

[**REDACTED**]

"Group", "our Group" or "the Group"	our Company and its subsidiaries
"HK$" or "HKD" or "HK dollars"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards, which collectively include Hong Kong Accounting Standards, amendments and the related interpretations issued by the Hong Kong Institute of Certified Public Accountants

[**REDACTED**]

"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC

[**REDACTED**]

"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited

[**REDACTED**]

[**REDACTED**]

"HongShan"	a leading venture capital and private equity firm investing across the technology, healthcare and consumer sectors
"HongShan Growth"	HSG Growth VI Holdco E, Ltd., formerly known as SCC Growth VI Holdco E, Ltd., is an exempted company established in the Cayman Islands with limited liability on July 2, 2020 and one of our Pre-[**REDACTED**] Investors
"Independent Third Party(ies)"	individual(s) or company(ies) who or which, to the best of our Directors' knowledge, having made all due and careful enquiries, is/are not connected person(s) (within the meaning of the Listing Rules) of our Company

[**REDACTED**]

[**REDACTED**]

"Joint Sponsors"	Morgan Stanley Asia Limited, China International Capital Corporation Hong Kong Securities Limited, and J.P. Morgan Securities (Far East) Limited
"Kayou BVI"	Kayou Holdings Limited, a BVI business company incorporated under the laws of the BVI with limited liability on June 7, 2021 and our direct wholly-owned subsidiary
"Kayou Hong Kong"	Kayou Limited (卡游(香港)有限公司), a company incorporated under the laws of Hong Kong with limited liability on June 25, 2021 and our indirect wholly-owned subsidiary
"Kayou (Shanghai) Culture Communications"	Kayou (Shanghai) Culture Communications Co., Ltd. (卡游(上海)文化傳播有限公司), a company established under the laws of the PRC with limited liability on April 27, 2011 and our indirect wholly-owned subsidiary
"Kayou (Shanghai) Culture Creativity"	Kayou (Shanghai) Culture Creativity Co., Ltd. (卡游(上海)文化創意有限公司), formerly known as Shanghai Kayou Trading Co., Ltd. (上海卡游商貿有限公司), a company incorporated under the laws of the PRC with limited liability on September 27, 2021 and our indirect wholly-owned subsidiary
"Latest Practicable Date"	January 16, 2024, being the latest practicable date for the purpose of ascertaining certain information contained in this Document prior to its publication
"Liqibin Holdings Limited"	Liqibin Holdings Limited, a BVI business company incorporated under the laws of the BVI with limited liability on May 20, 2021 and wholly owned by Mr. Li

DEFINITIONS

[**REDACTED**]

"Listing Committee"	the Listing Committee of the Stock Exchange

[**REDACTED**]

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"Memorandum" or "Memorandum of Association"	the amended and restated memorandum of association of our Company, conditionally adopted on [●] with effect from the [**REDACTED**], and as amended from time to time, a summary of which is set out in Appendix III to this Document
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Li"	Mr. LI Qibin (李奇斌), our founder, chairman of the Board, executive Director, chief executive officer, and one of our Controlling Shareholders
"Ms. Qi"	Ms. QI Yan (齊燕), a non-executive Director, and one of our Controlling Shareholders
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)

[**REDACTED**]

DEFINITIONS

[**REDACTED**]

"Ordinary Share(s)" or "Share(s)"	the ordinary share(s) of par value of US$0.0001 per share in the authorized share capital of our Company before the completion of the Share Subdivision, and par value of US$0.000001 per share after the Share Subdivision

[**REDACTED**]

"PBOC"	the People's Bank of China (中國人民銀行)
"PRC government"	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
"PRC Legal Advisor"	Jingtian & Gongcheng, acting as legal counsel as to PRC laws to our Company
"Pre-[**REDACTED**] Equity Incentive Plan"	the equity incentive plan adopted by our Company on January 11, 2024, a summary of the principal terms of which is set out in the section headed "D. Share Incentive Scheme" in the Appendix V to this Document
"Pre-[**REDACTED**] Investment"	the investment made by the Pre-[**REDACTED**] Investors, the principal terms of which are summarized in the section headed "History, Reorganization and Corporate Structure – The Pre-[**REDACTED**] Investment" in this Document

"Pre-[**REDACTED**] Investors"	the investor(s) who participated in the Pre-[**REDACTED**] Investment, details of which are set out in the section headed "History, Reorganization and Corporate Structure – The Pre-[**REDACTED**] Investment" in this Document

[**REDACTED**]

"QIB" or "Qualified Institutional Buyer"	a qualified institutional buyer as defined in Rule 144A
"Qiyan Holdings Limited"	Qiyan Holdings Limited, a BVI business company incorporated under the laws of the BVI with limited liability on May 20, 2021 and wholly owned by Ms. Qi
"Regulation S"	Regulation S under the U.S. Securities Act
"Reorganization"	the offshore and onshore reorganization as set out in the section headed "History, Reorganization and Corporate Structure – Reorganization" of this Document
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAMR"	the State Administration for Market Regulation of the PRC (國家市場監督管理總局) (formerly known as the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局) (the "SAIC"))
"SAT"	the State Taxation Administration of the PRC (中華人民共和國國家稅務總局)

"Series A Preferred Share(s)"	the series A preferred share(s) of our Company
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai Kayou Industry"	Shanghai Kayou Industry Co., Ltd. (上海卡游實業有限公司), a company established under the laws of the PRC with limited liability on September 22, 2022 and one of our indirect wholly-owned subsidiaries
"Shareholder(s)"	holder(s) of the Shares
"Share Subdivision"	the subdivision of each share in our Company's issued and unissued share capital with par value of US$0.0001 into 100 shares with par value of US$0.000001 each on [●], the details of which are set out in "History, Reorganization and Corporate Structure"
"Shenzhen Kayou Technology"	Shenzhen Kayou Technology Co., Ltd. (深圳卡游科技有限公司), a company established under the laws of the PRC with limited liability on January 17, 2022 and one of our indirect wholly-owned subsidiaries

[**REDACTED**]

"State Council"	the PRC State Council (中華人民共和國國務院)

[**REDACTED**]

"Substantial Shareholder(s)"	has the meaning ascribed to it in the Listing Rules
"Takeovers Code"	the Code on Takeovers and Mergers and Share Buy-backs issued by the SFC

"Tencent"	Tencent Holdings Limited, a company listed on the Stock Exchange (stock code: 700), and an Independent Third Party
"Track Record Period"	the period comprising the two financial years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023

[**REDACTED**]

"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"US$", "USD" or "U.S. dollars"	United States dollars, the lawful currency for the time being of the United States

[**REDACTED**]

"Zhejiang Kayou Animation"	Zhejiang Kayou Animation Co., Ltd. (浙江卡游動漫有限公司), a company established under the laws of the PRC with limited liability on August 7, 2019 and one of our indirect wholly-owned subsidiaries
"Zhejiang Kayou Culture Communications"	Zhejiang Kayou Culture Communications Co., Ltd. (浙江卡游文化傳播有限公司), a company established under the laws of the PRC with limited liability on February 27, 2018 and one of our indirect wholly-owned subsidiaries

"Zhejiang Kayou Technology"	Zhejiang Kayou Science and Technology Co., Ltd. (浙江卡游科技有限公司), a company established under the laws of the PRC with limited liability on November 26, 2019 and one of our indirect wholly-owned subsidiaries
"%"	per cent.

In this Document, the terms "close associate" and "core connected person" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this Document have been subject to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

For the purpose of this Document, references to "provinces" of China include provinces, municipalities under direct administration of the central government and provincial-level autonomous regions.

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this Document in both the Chinese and English languages, and, in the event of any inconsistency, the Chinese versions shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain technical terms used in this Document. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

"3D"	three-dimensional, having or appearing to have height, length and width
"AIGC"	AI-generated content, the content automatically generated by artificial intelligence according to personalized requirements from users
"BOM"	bill of materials
"CAGR"	compound annual growth rate
"GFA"	gross floor area
"GMV"	gross merchandise value
"IP"	intellectual property
"ISO14001"	an international standard that specifies requirements for environment management
"ISO45001"	an international standard that specifies requirements for occupational health and safety management
"ISO9001"	an international standard that specifies requirements for quality management
"Kayou Sanguo"	our proprietary IP developed based on The Romance of the Three Kingdoms (三國演義), one of the Four Classics of Chinese Novels in China
"OEM"	original equipment manufacturing, where a manufacturer produces products in accordance with the customer's design and specifications and the products are marketed and sold under the customer's brand name or under no specific brand
"pan-entertainment product"	physical products such as toys, stationery products, clothing and other consumer goods developed based on IPs
"sq.m."	square meter
"TCG"	trading card game, a type of card game that combines the collectability of trading cards with strategic deck-building and gameplay design

This Document includes forward-looking statements. All statements other than statements of historical facts contained in this Document, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "estimate," "predict," "aim," "intend," "will," "may," "plan," "consider," "anticipate," "seek," "should," "could," "would," "continue," or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among other things, the following:

- general political and economic conditions, including those related to the PRC;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our ability to successfully implement our business plans and strategies;
- our business operations and prospects;
- our capital expenditure plans;
- the actions and developments of our competitors;
- our financial condition and performance;
- capital market developments;
- our dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- various business opportunities that we may pursue; and
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and Hong Kong and the industry and markets in which we operate.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed in "Risk Factors" and elsewhere in this Document. We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this Document. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Document might not occur. All forward-looking statements contained in this Document are qualified by reference to the cautionary statements set out in this section.

An [**REDACTED**] *in our Shares involves significant risks. You should carefully consider all of the information in this Document, including the risks and uncertainties described below, before making an* [**REDACTED**] *in our Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the* [**REDACTED**] *of our Shares could decline, and you may lose all or part of your* [**REDACTED**].

These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in the section headed "Forward-looking Statements" in this Document.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our success depends in part on our capability to efficiently design, develop and produce high-quality products catering to consumer demand. If we fail to stay attuned to evolving consumer demand, our competitiveness may be materially and adversely affected.

Consumer demand for our products may change from time to time, subject to factors beyond our control such as changes in consumption willingness and purchasing power, evolving consumer demographics and diversifying toy and stationery products themed on varied IPs available on the market. We may fail to stay attuned to evolving consumer demand, as: (i) we may not be able to timely identify new market trends; (ii) our production design and development framework may not be efficient and flexible enough to ensure timely product launch; (iii) we may not be able to keep up with technological advancements in production to support our design ideas and produce high-quality products with fine craftsmanship that could meet consumer needs; and (iv) IPs that we use for product development may lose popularity. Therefore, we cannot assure you that we are able to continuously and efficiently design, develop and produce high-quality products that could successfully cater to consumer demand. Also, even if our products gain initial success, we may not be able to maintain their popularity and market momentum. Failure in continually upgrading our product mix in line with evolving consumer demand may materially and adversely affect our sales performance and profitability.

The industry in which we operate may not develop as we expected, and we may fail to compete effectively against our existing or potential competitors.

The development of the pan-entertainment product industry is subject to uncertainties and may be impacted by factors such as changes in the laws and regulations governing the pan-entertainment product industry, evolving consumption patterns and preferences, changes in consumer spending on pan-entertainment products and public health incidents. If the growth of the pan-entertainment product industry slows down or even stops, our business prospects may be materially and adversely affected.

We compete primarily with international and domestic pan-entertainment product companies. Our ability to compete effectively against existing or potential competitors depends on various factors, such as brand reputation, product design and innovation capabilities, popularity of IPs, IP operation capabilities, product craftsmanship and quality, production capabilities, sales and marketing capabilities, product experience and customer acquisition and retention capabilities. Some of our competitors may have competitive advantages in these areas. As competition intensifies and the presence of potential competitors increases, we may need to devote more management, financial or human resources. If we are not able to compete effectively, our market share could decline and our business, financial condition and results of operations could be materially and adversely affected.

Any deterioration in the recognition or popularity of existing IPs in our IP matrix or any failure in successfully sourcing, developing or commercializing new IPs may materially and adversely affect our business, financial condition and results of operations.

We offer IP-themed products. The recognition or popularity of IPs in our IP matrix is crucial for the sales performance of our pan-entertainment products and is in part dependent on our IP operation capabilities. We cannot assure you that we can always devise and implement efficient IP operation strategies to successfully maintain the popularity of IPs. In addition, certain factors beyond our control may impede our IP operation efforts. For example: (i) artists and other IP partners that we collaborate with may not be able to continuously create, launch or offer high-quality content resources under the existing IPs in our IP matrix; (ii) consumers may have evolving preferences that shift away from these existing IPs; and (iii) there may be unexpected negative publicity in relation to these existing IPs. Any deterioration in the recognition or popularity of the existing IPs in our IP matrix may materially and adversely affect our sales performance and reputation.

In addition, we have been consistently sourcing, developing and commercializing new IPs. However, we cannot guarantee that we will always be capable of identifying and developing IPs that appeal to consumers. Any misperception of market trends and consumer preferences could result in divergence between the expected and actual market acceptance of our new licensed or proprietary IPs. Furthermore, our new licensed or proprietary IPs may lose their popularity given rapidly changing market trends and consumer preferences. Moreover, our efforts in IP commercialization may not always be successful. The economic benefits derived from the new IPs may not meet our expectations, or even fail to compensate for the licensing fees relating to licensed IPs or research and development expenses relating to proprietary IPs. Any of these events could materially and adversely affect our business, financial condition, results of operations and prospects.

We face risks associated with IP licensing. If we fail to obtain, maintain or renew IP license arrangements on favorable terms, or if our IP partners fail to maintain and protect their IPs, our business, financial condition and results of operations may be materially and adversely affected.

We license from third-party IP partners for IPs that we use for developing pan-entertainment products. In particular, licensed Ultraman IP contributed to a majority of our revenue during the Track Record Period. While we strive to diversify our IP matrix through collaboration with a wider range of IP holders, we may not be able to license from target IP holders on favorable terms, or at all. In addition, the terms of our license agreements with IP partners generally range from one to ten years, and the agreements are generally not automatically renewable. We generally do not have the right to sell any products developed under the licensed IPs without the prior consent of relevant IP partners typically after a three-month period upon termination of the licenses. While we strive to maintain stable relationships with IP partners, we cannot guarantee that we will always be able to maintain and renew our license agreements on similar terms, or at all. In addition, IP partners may not be able to maintain and protect their IP rights, which could affect our use of IPs licensed from them. For example, IP partners who are sub-licensors may not be able to maintain and renew their license agreements with the IP holders. The failure to license from target IP holders on favorable terms, termination of one or more of our license agreements, renewal of license agreements on less favorable terms or failure of IP partners to maintain and protect their IPs could have a material and adverse effect on our business, financial condition and results of operations.

We sell our products through a multi-channel sales network consisting of distributor, direct sales and retail channels. If we fail to develop, manage, monitor and coordinate these sales channels effectively, our business, financial condition and results of operations may be materially and adversely affected.

We face risks relating to sales channel management. For example, we may have limited control over sales channel partners. Any non-compliance with our requirements and policies by sales channel partners, or any violation by them of agreements with us, such as the misuse of our logo, violation of our guidelines or inappropriate marketing activities, may negatively impact our sales of products, compromise consumer experience or harm our brand recognition. In addition, some of our distributors may sell our products to sub-distributors. In general, we do not enter into agreements with such sub-distributors, thus having no control over their sales activities. There is no guarantee that our sales channel partners or sub-distributors will always comply with our guidelines and sales strategies or that they will not compete with each other for market share of our products. If our sales channel partners or sub-distributors fail to sell our products to their customers in a timely manner or carry out actions inconsistent with our guidelines and sales strategies, our future sales of products may decline, and our reputation may be harmed. Any of these events may materially and adversely affect our business, financial condition, results of operations and prospects.

Moreover, our success depends on our ability to effectively maintain and optimize our sales network to establish and deepen our presence across China, which is subject to a number of factors, certain of which are beyond our control. For example, if we fail to maintain stable relationships with our existing sales channel partners, have disputes with them, or fail to establish partnerships with new sales channel partners on favorable terms, or if purchases made by sales channel partners decline, we may not be able to maintain our market position across a broad range of regions, particularly taking into consideration that our revenue from distributors across 31 provinces accounted for 96.8%, 92.7% and 81.2% of our total revenue in 2021, 2022 and the nine months ended September 30, 2023, respectively. If we fail to successfully implement our development and growth plan and provide adequate resource and operational support to our sales network, our profitability and prospects may be materially and adversely affected.

Our production technologies may not consistently meet consumer demand for craftsmanship. Failure to keep up with technological advancements in production may impair our competitive edge in the industry.

We are dedicated to producing high-quality products with fine craftsmanship, and we constantly introduce advanced production equipment and optimize our production technologies to improve product quality and enhance production efficiency. However, given the rapid development of production technologies, we cannot guarantee that we will always stay at the forefront of production technologies and craftsmanship in the industry to cater to consumer preferences. Any failure to keep up with the latest technological advancements in production, or failure to design and produce products catering to consumer preferences, may cause our market share to decline, further materially and adversely affecting our business, financial condition and results of operations.

Our future success depends on our ability to cost-effectively improve production capabilities and expand production capacity.

We cannot assure you that our efforts in production facility expansion and upgrade could meet our needs as expected. A number of factors could affect our ability to enhance production capabilities, such as failure to (i) find appropriate sites for our new production bases; (ii) raise sufficient funds and maintain working capital to establish and operate our new production bases, upgrade our production technologies and equipment and enhance the intelligence of production processes; (iii) obtain environmental and regulatory approvals, construction permits, other permits or licenses from the relevant government authorities, or complete the construction acceptance filings, fire protection-related filings and/or procedures in a timely manner; or (iv) recruit, retain and train qualified employees for our production facility expansion and upgrade plan.

Failure to improve production capabilities and expand production capacities could hinder our ability to satisfy customer demand and our prospects. Furthermore, even if we successfully implement our production facility expansion and upgrade plan, if market demand declines in the future, we may face the risk of over-expansion. We cannot guarantee that we are able to recoup the costs incurred for construction of new production bases and maintenance of expanded production capacity, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our business depends significantly on the market recognition of our Kayou brand. Any damage to our brand reputation, or any failure to effectively promote our brand, could materially and adversely affect our business, financial condition and results of operations.

Our brand reputation is critical to our consumer engagement and relationships with business partners such as IP partners or distributors. Any negative publicity involving us, our management, our products, the TCG events, our licensed or proprietary IPs, our consumers, our business partners or the industry in which we operate could materially and adversely harm our brand reputation. We may not be able to effectively defuse such negative publicity and may be required to initiate or engage in defensive media campaigns and legal actions that increase our marketing or legal expenses and divert our management's attention.

In addition, we may not be able to effectively promote our brand recognition. We strive to enhance our brand awareness through activities including TCG events. However, we cannot assure you that our efforts in brand promotion and marketing activities will impress audience and engage consumers efficiently as expected. Any failure in cost-effective brand promotion and marketing may lead to increasing marketing expenses and materially and adversely affect our profitability. In addition, as our business scales up, we may need to comply with an increasing number of regulatory requirements related to our brand promotion and marketing activities, and any non-compliance in this regard may expose us to potential liabilities and harm our reputation.

Certain parts of our business have relatively limited operation history, and may face unexpected development challenges.

We have a relatively limited history in selling certain toys other than trading cards, as well as stationery products. For example, we extended our toy offerings to badges in 2021, stickers in 2022 and figures in 2023. We branched out into stationery products in 2022. Our revenue generated from sales of toys other than trading cards was RMB128.8 million, RMB180.0 million and RMB142.7 million in 2021, 2022 and the nine months ended September 30, 2023, respectively, and our revenue generated from sales of stationery products was nil, RMB20.9 million and RMB133.8 million in 2021, 2022 and the nine months ended September 30, 2023, respectively. These businesses are still in an early development phase with relatively high volatility and may face unexpected development challenges. For example, it may take time for us to enrich our product mix, expand production capacity, establish relationships with business partners and promote our brand awareness for these product categories, and we may be required to devote considerable resources to build up our competence. If we are unable to develop these businesses cost-effectively, our decision to step into such businesses may be challenged, making it difficult to evaluate the prospects of these businesses due to a degree of uncertainty.

Our competitiveness in part depends on our ability to obtain, maintain and protect our IPs.

We had registered or owned 78 patents, 29 trademarks and one domain name which we consider to be or may be material to our business as of September 30, 2023. To the extent possible, we rely on a combination of patent, trademark, copyright and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions, to protect our IP rights. However, these laws, procedures and contractual provisions may provide only limited protection, and any of our IP rights may be challenged, invalidated, circumvented, infringed or misappropriated, such as by counterfeiters. The costs associated with protecting our IP rights may be significant. Also, we are in the process of registering certain IP rights, and there can be no assurance that these and other IP applications could be approved in a timely manner or at all. Any failure to obtain, maintain and protect our trademarks, copyrights and other IP rights could materially and adversely affect our business, financial condition and results of operations.

Operating our business without infringing, misappropriating or otherwise violating the patents, trademarks, copyrights, trade secret and other proprietary rights of third parties is crucial to our business.

We cannot assure you that our business practices do not and will not infringe, misappropriate or otherwise violate any patents, trademarks, copyrights, trade secrets and other proprietary rights of third parties, given the uncertainties inherent in the scope of certain patents, trademarks, copyrights, trade secrets and other proprietary rights. IP litigation is usually complex and the results of IP litigation are unpredictable. As we gain greater visibility and market exposure as a public company, we may also be at greater risk of being the subject of IP litigation. Third parties may claim that our products or activities infringe, misappropriate or otherwise violate their patents, trademarks, copyrights, trade secrets or other proprietary rights. Defending against these allegations and lawsuits could be costly, take a significant amount of time, distract management from our business operations and delay our product launch. In addition, if we are found to have infringed, misappropriated or otherwise violated a third party's patents, trademarks, copyrights, trade secrets or other proprietary rights, we may be required to pay substantial damages or be subject to orders, judgments or administrative penalties that prohibit us from selling certain products or impose other liabilities on us. Any allegation of infringement of the IP rights of others, even if unfounded, could damage our reputation and tarnish our brand image. In addition, our use of the disputed IPs may be restricted, which could materially and adversely affect our operations.

Our historical results of operations may not be indicative of our future performance.

We experienced fluctuations in revenue during the Track Record Period. Our revenue increased by 79.7% from RMB2,298.3 million in 2021 to RMB4,131.1 million in 2022. Our revenue decreased by 46.6% from RMB3,652.1 million in the nine months ended September 30, 2022 to RMB1,951.5 million in the same period of 2023. We had net loss of RMB153.2 million, RMB296.0 million in 2021 and 2022, respectively, and we had net profit of RMB260.2 million in the nine months ended September 30, 2023. See "Financial Information – Description of Major Components of Our Results of Operations." Our future growth and profitability are affected by a number of factors, such as (i) general factors driving the development of the pan-entertainment product industry in China, including China's overall economic growth, levels of per capita disposable income and consumer spending in China and evolving consumption patterns; (ii) our ability to successfully implement our business development strategies in a cost-effective manner; and (iii) our ability to effectively manage our costs and expenses and continually improve operational efficiency. We incurred net loss in 2021 and 2022, primarily due to the fair value changes of financial liabilities at fair value through profit or loss relating to our Series A Preferred Shares. We do not expect to record any further fair value changes of financial liabilities at fair value through profit or loss after [**REDACTED**] due to the reclassification of financial liabilities at fair value through profit or loss from liabilities to equity as a result of the conversion of Series A Preferred Shares into Ordinary Shares upon [**REDACTED**]. You should therefore not rely on our historical results of operations as indicative of our future performance. In addition, due to the estimated share-based payment expenses for Shares issued under our Pre-[**REDACTED**] Equity Incentive Plan adopted in January 2024, we may have net loss in 2024.

We had net current liabilities in the past, which we may continue to experience in the future.

We had net current liabilities of RMB864.4 million, RMB2,917.5 million and RMB2,743.5 million as of December 31, 2021, 2022 and September 30, 2023, respectively. The major components of our current liabilities during the Track Record Period were financial liabilities at fair value through profit or loss relating to our Series A Preferred Shares. We expect to achieve a net current asset position due to the reclassification of financial liabilities at fair value through profit or loss from liability to equity as a result of the conversion of Series A Preferred Shares into Ordinary Shares upon [**REDACTED**]. While we expect the net current liabilities position to improve, we cannot assure you that we will not experience liquidity problems in the future. If we fail to maintain sufficient cash and financing, we may not have adequate cash flows to fund our business, operations and capital expenditures, and our business, financial condition and results of operations could be materially and adversely affected.

We may not be able to control or influence secondary trading of our products. Certain unsuitable behaviors or pricing in secondary trading may negatively and materially affect our brand reputation and business.

There may be secondary trading of our products. We may not be able to control or influence such secondary trading, and there may be unsuitable behaviors or pricing in such secondary trading. For example, our product packs or boxes may be opened and repacked with rare products being picked out for sale at a premium and the rest of the products being repacked to pass as new packs or boxes to be sold to unaware consumers. The premium secondary sale price of rare products, together with the lowered probability of obtaining rare products resulting from repacked packs or boxes may negatively impact consumer perceptions and experience. Also, any unreasonably low secondary sale price beyond our control may also negatively affect our brand positioning and product popularity. Unsuitable behaviors or pricing such as these, despite our efforts in product packaging to deter these, could negatively and materially affect our brand reputation and our business.

Counterfeit products may negatively affect our sales and harm our brand reputation.

We may find third parties' products on the market sold under our brand name or trademark without the appropriate license or authorization from us, or products sold under brand names or trademarks that resemble ours. Any litigation to prosecute infringements of our rights and products may be expensive and could divert management's attention and other resources from our business. Our reputation may be damaged due to difficulties in distinguishing such products from ours. We may not be able to identify and handle counterfeit issues effectively and promptly, in which case our business, financial condition and reputation may be materially and adversely affected.

Any shortages, price fluctuations or quality issues relating to raw materials and semi-finished products that we procure or disruptions to our supply chain may have a material and adverse effect on our business, financial condition and results of operations.

The raw materials used in our production primarily include paper and ink. For packaging, we mainly use materials such as aluminum foil and cardboard boxes. We procure raw materials and packaging materials from large-scale third-party suppliers in China. We also procure certain semi-finished products for production. See "Business – Production and Procurement – Procurement." We may face supply chain risks associated with factors beyond our control, such as natural disasters and labor shortages. Any shortages, price fluctuations or disruption of supply of materials and semi-finished products we procure may cause a disruption to production and result in our inability to provide adequate products to meet market demand for our products that subsequently leads to loss of sales. We may also be exposed to the possibility of increased costs, which we may not be able to pass on to customers.

In addition, we cannot guarantee that our inspection on materials and semi-finished products that we procure suffices to identify all apparent or hidden defects. Any quality issue of materials and semi-finished products used in our production may result in defects in our products and subject us to potential liabilities and claims. While we typically require suppliers to indemnify us for our losses caused by defective materials and semi-finished products, potential liabilities and claims related to defects in our product may impair our brand reputation and materially and adversely affect our business, financial condition and results of operations.

We may experience delays, disruptions or accidents in our production, which could result in a loss of sales.

We utilize equipment such as printing equipment, die-cutting machines, injection molding machines, foil stamping machines, accessory assembly machines, card dispensers and packaging machines in our production, and strive to enhance the automation and digitalization of our production process. Any significant downtime associated with the maintenance and repair of equipment or any malfunction of information systems may delay or disrupt our production, hindering our production efficiency and potentially resulting in a loss of sales. The use of production equipment may also cause accidents that interrupt our production and result in legal and regulatory liabilities, such as those relating to property loss or personal injury. Insurance coverage related to accidents resulting from the use of our production equipment may be inadequate to offset losses arising from claims related to such accidents. We cannot assure you that accidents will not happen in the future, which could materially and adversely affect our reputation, business, financial condition and results of operations.

Moreover, we may experience delays, disruptions or accidents in our production due to natural or man-made disasters, such as fires, floods, storms, earthquakes, explosions, public health incidents, extreme weather, strikes, acts of terrorism, wars and other interruptions such as suspension of power and water supplies, most of which are beyond our control. Any of these events could negatively impact our production and materially and adversely affect our business, financial condition and results of operations.

Any product quality issue resulting from quality control failures in relation to product design, development and production processes may materially and adversely impair our brand recognition and expose us to potential liabilities.

We strive to provide quality and reliable products by implementing rigorous quality control processes spanning across procurement, production, finished product inspection and product certification. See "Business – Quality Control." However, we cannot assure you that we will not encounter any product quality issues. Quality issues may arise from various causes such as: (i) product design defects; (ii) inferior materials and semi-finished products used in production; or (iii) malpractice in production and inspection processes. In particular, we engage third-party design service companies and OEM providers to assist with our product design and production. Quality control failures regarding the services and work of third parties could cause quality issues in our own products. Any quality issue may expose us to product liabilities, claims or legal proceedings, further materially and adversely affecting our brand recognition, business, financial condition and results of operations.

We are exposed to inventory management risks and may face inventory impairment, shortage or excess. If we fail to accurately forecast demand for our products, our business, financial condition and results of operations may be materially and adversely affected.

Our inventories mainly include raw materials, finished goods and work in progress. As of December 31, 2021, 2022 and September 30, 2023, we had inventories of RMB232.8 million, RMB230.3 million and RMB340.6 million, respectively. Our inventory turnover days for 2021, 2022 and the nine months ended September 30, 2023 were 85.1 days, 67.0 days and 128.7 days, respectively. See "Financial Information – Discussion of Selected Items from the Consolidated Statements of Financial Position – Inventories." We are required to maintain sufficient inventory levels to operate our business successfully, while avoiding excess inventory. Failure to forecast consumer demand or any unexpected event affecting the sales of our products could expose us to inventory obsolescence or result in a decline in inventory value or inventory write-downs. In particular, we may be affected by distributors' purchasing decisions and strategies. If we are not successful in managing our inventory, our business, financial condition and results of operations could be adversely affected.

We may be adversely affected by any significant disruption to the warehouses where we store our products. We are exposed to risks relating to third-party logistics service providers.

We operate a logistics center in Yiwu, Zhejiang. See "Business – Inventory Management, Warehousing and Logistics." A significant disruption to the warehouses, whether as a result of natural disasters, public health incidents, labor shortages, fires or other causes, or any unexpected and adverse changes in the storage conditions of our warehouses, could disrupt our operations, which may cause delay in product deliveries or even destroy our products. Though we maintain insurance to cover our inventory loss and damages, the coverage may not be sufficient and any delay in delivery may not be recoverable. Prolonged business disruptions could also result in a loss of sales. Any of these events may adversely affect our business, financial condition and results of operations.

During the Track Record Period, we engaged independent third-party logistics service providers to transport our products from production bases to the logistics center, and from the logistics center to customers. Our dependence on third-party logistics providers could expose us to potential service disruptions or inefficiencies. If these providers fail to meet their service obligations due to operational issues, financial difficulties or other unforeseen circumstances, our ability to deliver products to customers in a timely and cost-effective manner may be impacted, which could cause a decline in product sales and loss of revenue. In addition, improper handling of our products by the logistics service providers could also result in product damage, which could lead to product liabilities or claims and damage our brand image and reputation. Any of these events of which could materially and adversely affect our business, financial condition and results of operations.

Changes in existing laws, regulations or policies governing our industry and business, the imposition of new laws, regulations or policies, or new interpretations thereof, may impair our ability to compete, and could materially and adversely affect our business, financial condition and results of operations.

We are subject to laws, regulations and policies governing the pan-entertainment product industry in China. The regulatory regime for the industry has been evolving, with new laws, regulations and other regulatory measures being introduced from time to time, such as the Regulations on Administration of Printing Industry (2020 Revision) (印刷業管理條例(2020修訂)) and the Copyright Law of the People's Republic of China (2020 Amendment) (中華人民共和國著作權法(2020修正)). In addition, the Compliance Guidelines for Blind Box Business Activities (for Trial Implementation) (盲盒經營行為規範指引(試行)) were promulgated on June 8, 2023, reflecting the recent heightened regulatory scrutiny of the blind box business activities. See "Regulatory Overview." Such laws and regulations may become more comprehensive and stringent in the future. While we closely monitor changes in the relevant laws and regulations and have implemented measures to ensure our ongoing compliance, changes in the regulatory regime may materially and adversely impact our business. For example: (i) we may incur increased compliance costs on our business and face challenges in rolling out new products; (ii) we may encounter greater difficulties in obtaining relevant regulatory approvals; and (iii) our sales and marketing activities may be restricted in scope, content, format and other aspects. Any non-compliance with applicable laws and regulations may expose us to liability. In case of any non-compliance, we may have to incur significant expenses and divert management's attention and substantial resources to resolving deficiencies.

Furthermore, we cannot assure you that our customers and other business partners will always be able to comply with the laws and regulations in a timely manner or at all. We may have to terminate our collaboration with customers and other business partners that fail to do so, and our business, financial condition and results of operations may be materially and adversely affected.

We are subject to environmental protection, health and safety-related laws and regulations. Changes in existing laws and regulations may cause us to incur additional compliance costs.

We engage in the production of pan-entertainment products and are subject to laws and regulations in relation to environmental protection, health and safety. See "Regulatory Overview." We may incur ongoing compliance costs and incur additional compliance costs for changes in existing laws and regulations. Failure to comply with existing and future environmental protection, public health safety, fire safety and other health and safety-related laws and regulations could subject us to liabilities, such as monetary damages and fines, affect our production capabilities, or even result in the suspension of our business operations. Any of these events may have a material and adverse effect on our business, financial condition and results of operations.

Any failure to obtain and maintain the approvals, licenses and permits required for our operations may materially and adversely affect our business and results of operations.

Our business requires us to obtain and renew, from time to time, a multitude of approvals, licenses and permits, such as printing business permit. See "Regulatory Overview – Regulations on Offline Business – Regulations on Production." If we fail to obtain, maintain or renew any necessary approval, license or permit for our operations in a timely manner or at all, or if the scope of our operations exceeds the scope permitted under the applicable approvals, licenses and permits, we may be subject to fines, penalties or suspension of operations or even revocation of operating licenses, and our business, financial condition and results of operations may be materially and adversely affected.

Failure to pay social insurance premiums and housing provident funds for and on behalf of our employees in accordance with applicable laws and regulations may materially and adversely affect our financial condition and results of operations.

According to applicable PRC laws and regulations, employers shall contribute social insurance premiums and housing provident funds for employees. During the Track Record Period, some of our subsidiaries engaged third-party agencies to pay social insurance premiums and housing provident funds for certain employees. Under the agreements entered into between the third-party agencies and our relevant subsidiaries, the third-party agencies have the obligation to pay social insurance premiums and housing provident funds for our relevant employees. However, if these agencies fail to pay the social insurance premiums or housing provident funds for and on behalf of our employees as required under applicable laws and regulations, we may be subject to penalties imposed by the local social insurance authorities and housing provident fund management centers for failing to discharge our obligations in relation to payment of social insurance premiums and housing provident funds as an employer. This may materially and adversely affect our financial condition and results of operations.

Our leasehold interests or leased properties may be defective and our leases of certain properties may be challenged.

We leased 159 properties in China for our business operations as of the Latest Practicable Date. As of the Latest Practicable Date, lessors had failed to provide us with their property title certificates or proof of authorizations from the property owners for 59 leased properties. In addition, as of the Latest Practicable Date, 25 of our leased properties were located on allocated lands while the lessors had not completed the necessary procedures with the relevant land administration bureau in China for leasing out such properties on allocated lands in accordance with applicable laws and regulations in China. See "Business – Properties." As a result, we cannot assure you that we will not be subject to any challenges, lawsuits or other actions taken against us with respect to our leases of the properties for which the relevant lessors do not hold valid titles or failed to complete the necessary procedures. If any of these challenges are successful, the lease may be affected or deemed invalid and we may be required to relocate from these relevant properties. If we fail to find qualified alternative premises on terms acceptable to us, or if we are subject to any material liability resulting from challenges to our leases of properties for which our lessors do not hold valid titles or failed to complete the necessary procedures, our business, financial condition and results of operations may be materially and adversely affected.

In addition, as of the Latest Practicable Date, we had not registered the lease agreements for 159 of our leased properties with the relevant real estate administration bureaus in accordance with applicable laws and regulations in China. See "Business – Properties." As advised by our PRC Legal Advisor, the non-registration does not affect the validity and enforceability of the lease agreements, but we may be subject to fines from RMB1,000 to RMB10,000 for each such lease agreement for failure to register.

Moreover, we had not obtained or completed construction or fire protection-related permits, filings or procedures for 22 of our leased properties as of the Latest Practicable Date. See "Business – Properties." As advised by our PRC Legal Advisor, (i) failure to obtain the construction permit may subject us to an order of rectification and a fine of 1% to 2% of the total cost specified in the construction project contract for each relevant leased property; (ii) failure to complete the construction completion acceptance filings may subject us to an order of rectification and a fine of 2% to 4% of the total cost specified in the construction project contract for each relevant leased property; and (iii) failure to complete the fire protection-related filings and/or procedures may subject us to suspension of use of relevant leased properties and a fine ranging from RMB30,000 to RMB300,000 for each relevant leased property.

Our insurance coverage may be insufficient to cover all of our potential losses.

We maintain insurance coverage over our daily operations. We cannot assure you that our insurance will provide adequate coverage for all the risks in connection with our business operations. If we were to incur substantial losses and liabilities that are not covered by our insurance policies, we may be required to bear our losses to the extent that our insurance coverage is insufficient. As a result, we could suffer significant costs and diversion of our resources, which could have a material and adverse effect on our business, financial condition and results of operations.

Our information systems may experience system failures, interruptions or security breaches.

Our business operations rely on our information systems for various functions. These systems are critical for maintaining operational efficiency, data accuracy and timely decision-making. However, our information systems are subject to various risks, including system failures, data inaccuracies, cyber-attacks, data breaches and other security incidents. Any such event could disrupt our operations, compromise our data, and result in significant remediation costs, legal liabilities and reputational damage. Furthermore, our information systems need to be regularly updated and upgraded to keep pace with technological advancements and changing business needs. These updates and upgrades require significant investment and may cause system disruptions or compatibility issues.

We also engage certain third-party service providers for the development, upgrade and maintenance of certain information systems. Any failure of these third-party service providers to meet their service obligations could affect the performance of our information systems. Furthermore, any breach of contract or termination of services by these third-party service providers could result in disruptions to the operation of our information systems and we may incur additional costs and experience delays to find alternative service providers.

Any failure to comply with the laws and regulations relating to cybersecurity, data privacy and protection may subject us to legal or administrative proceedings, which may materially and adversely affect our reputation and business operations.

We have access to and collect transactional information from certain consumers through online channels. See "Business – Data Privacy and Protection." Accordingly, our business operations are subject to various data privacy, protection and security laws, such as the PRC Data Security Law (中華人民共和國數據安全法), Revised Cybersecurity Review Measures (網絡安全審查辦法), Administration Regulations on Cyber Data Security (Draft for Comments) (網絡數據安全管理條例(徵求意見稿)) and the Personal Information Protection Law (個人信息保護法). See "Regulatory Overview – Regulations on Online Business – Regulations on

Cybersecurity, Privacy and Data Protection." There might be changes from time to time regarding the interpretation and application of the laws and regulations regarding data privacy and protection as they are generally complex and evolving. In addition, we may be subject to additional regulatory requirements regarding data privacy and protection, which may necessitate adjustments to our data framework and incur additional costs. Any failure or perceived failure of us to comply with data privacy and protection laws, or other concerns about our practices or policies with respect to the collection, use, storage, retention, transfer, disclosure and other processing of data and cybersecurity, could subject us to potential liabilities and reputational damage. In addition, the regulatory regime for data protection and privacy is complex and constantly evolving, which could increase our compliance costs and operational complexity. Any failure to closely monitor the relevant regulatory development could subject us to potential liabilities, further materially and adversely affecting our business, financial condition and results of operations.

We face risks associated with the misconduct of our employees, business partners and their employees and other related personnel.

Our business operations and reputation are significantly influenced by the conduct of our employees, business partners and their employees and other related personnel. Despite our efforts to implement stringent oversight mechanisms and ethical guidelines, it may not always be possible to prevent or detect misconduct by these parties. The misconduct by these parties, including fraudulent activities, non-compliance with laws and regulations, unethical business practices or any other actions that are inconsistent with our corporate policies and values, may subject us to potential liabilities and damage our reputation, leading to loss of consumers, decreased market share and potential difficulties in attracting and retaining business partners.

Our business depends on the continuing efforts of our key personnel performing vital functions. If we are not able to attract or retain qualified personnel, our business, financial condition and results of operations may be materially and adversely affected.

Our business operations depend on the continuing efforts of our management, particularly the members of our senior management team. See "Directors and Senior Management." If one or more members of our management are unable or unwilling to continue their employment with us, we may not be able to replace them in a timely manner, or at all. We may incur additional expenses to recruit and retain qualified replacements. In addition, our management may join a competitor or form a competing company. We can provide no assurance that we will be able to successfully enforce our contractual rights included in employment agreements with our management. As a result, our business may suffer the loss of services of one or more members of our management, and our business, financial condition and results of operations may be materially and adversely affected.

We may from time to time become a party to litigation, other legal and contractual disputes, claims and administrative proceedings that may materially and adversely affect our business and reputation.

We may from time to time be subject to various litigation, legal or contractual disputes, claims or administrative proceedings in the ordinary course of our business, including, but not limited to, various disputes with or claims from our suppliers, customers, consumers, business partners and other third parties. Ongoing or threatened litigation, legal or contractual disputes, claims or administrative proceedings may divert our management's attention and other resources. Furthermore, any litigation, legal or contractual disputes, claims or administrative proceedings which are initially not of material importance may escalate and become important to us, due to a variety of factors such as the subject matter of the disputes, the likelihood of loss, the monetary amount at stake and the parties involved. If any adverse verdict, judgment or award is rendered against us or if we settle with any third parties, we may be required to pay significant monetary damages or assume other liabilities. In addition, negative publicity arising from litigation, legal or contractual disputes, claims or administrative proceedings may damage our reputation and adversely affect the image of our brands and products, which may further materially and adversely affect our business.

Force majeure events, natural disasters, public health incidents, acts of war, terrorism or other factors beyond our control may materially and adversely affect our business, financial condition and results of operations.

Force majeure events, natural disasters, public health incidents, acts of war, terrorism or other factors beyond our control could adversely affect the economies, infrastructure and lives of people in the regions in which we operate. Our operations may be subject to the threat of floods, earthquakes, dust storms, snowstorms, fires or droughts, power, water or fuel shortages, malfunctions, breakdowns and failures of information systems, unexpected maintenance or technical problems, or be vulnerable to potential war or terrorist attacks. Severe natural disasters could result in loss of life, injury, destruction of assets and disruption to our business and operations. Acts of war or terrorism could also injure our employees, cause loss of life, disrupt our business operations and impair our markets. Any of these factors, as well as other factors beyond our control, could materially and adversely affect the overall business sentiment and environment, lead to uncertainty in the regions in which we operate, cause our business to suffer losses that we cannot predict and have a material and adverse effect on our business, financial condition and results of operations.

We have awarded and may continue to award equity instruments under equity incentive plans, which may cause shareholding dilution to our Shareholders and result in increased share-based payment expenses.

In 2021, 2022 and the nine months ended September 30, 2023, we had share-based payment expenses of RMB39.4 million, RMB199.6 million and RMB203.3 million, respectively. In January 2024, we adopted the Pre-[**REDACTED**] Equity Incentive Plan and issued 1,307,189 Shares to eligible participants under this plan. The estimated share-based payment expenses for this issuance of Shares under the Pre-[**REDACTED**] Equity Incentive Plan may result in net loss in 2024. To further incentivize our employees, we may adopt other equity incentive plans and award additional equity incentives. Issuance of Shares with respect to our equity incentive plan may dilute the shareholding of our existing Shareholders and incur substantial share-based payment expenses that could materially and adversely affect our financial performance.

We face challenges in expanding into overseas markets.

We consider strategically expanding our footprint into overseas markets in the future. Our planned operations in overseas markets are subject to the risks associated with international trade policies, geopolitics and trade protection measures. Operations in certain countries may be negatively affected by deterioration in political and economic relations among countries, sanctions and export controls, international trade regulations and trade protection measures, and may be subject to other geopolitical challenges, including economic and labor conditions, increased duties, taxes and other costs and political instability. In addition, our international expansion plan is also subject to challenges in localizing our business and competing against competitors with more local resources in the overseas market. As a result, we cannot guarantee that our expansion plan into overseas markets can be successfully implemented.

Fluctuations in exchange rates may adversely affect our results of operations.

We recorded RMB1.2 million, RMB1.3 million and nil net gains on foreign exchange differences in 2021, 2022 and the nine months ended September 30, 2023, respectively. We may be affected by fluctuations in exchange rates, which may result in foreign currency exchange losses in the future. The availability and effectiveness of hedges may be limited, and we may not be able to hedge our exposure successfully, or at all.

RISKS RELATING TO DOING BUSINESS IN THE JURISDICTIONS WHERE WE OPERATE

Failure to respond to changes in the economic or social conditions or government policies in the jurisdictions where we operate could affect our business, financial condition and results of operations.

A substantial proportion of our assets and operations are located in China. Accordingly, our business, financial condition and results of operations are affected by general economic and social conditions. Any economic downturn, whether actual or perceived, further decrease in economic growth rates or an otherwise uncertain economic outlook in the global market could affect our business, financial condition and results of operations. Changes in the economic or social environment could increase our costs, increase our exposure to legal and business risks, disrupt our operations and affect our results of operations. In addition, social conditions, including changes in consumer preferences, social norms or demographic trends, can also affect the demand for our products. Accordingly, our ability to anticipate and effectively respond to these changes is crucial for our business success. However, predicting or influencing these factors is often beyond our control. Failure to adapt to changes in economic or social conditions or government policies, could adversely affect our business, financial condition and results of operations.

The legal systems of the jurisdictions in which we operate may change from time to time, and this could affect our business, financial condition and results of operations.

We primarily operate in China and are subject to certain changes embedded in the legal systems of its jurisdiction, which is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value. Laws and regulations that are recently enacted may not sufficiently cover all aspects of economic activities in the market. In particular, the application of some of these laws and regulations to our business is still evolving. Since local administrative and court authorities have certain discretion in interpreting and implementing statutory provisions and contractual terms in accordance with relevant laws and regulations, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we have. Local courts may have discretion to reject enforcement of foreign awards or arbitration awards in accordance with relevant laws and regulations. These factors may affect our judgment on the relevance of legal requirements and our ability to enforce our contractual rights or claims. In addition, regulatory changes may be exploited through unmerited or frivolous legal actions, claims concerning the conduct of third parties or threats in an attempt to extract payments or benefits from us. Furthermore, administrative and court proceedings may be protracted, resulting in substantial costs and diversion of resources and management's attention.

It is possible that a number of laws and regulations may be adopted or construed to apply to us in the market where we operate and elsewhere that could affect our business and operations. Scrutiny and regulation of the industry in which we operate may further increase, and we may be required to devote additional legal and other resources for compliance with these regulatory requirements. Changes in current laws or regulations or the imposition of new laws and regulations in the market where we operate may slow the growth of the industry in which we operate and affect our business, financial condition and results of operations.

We may be subject to additional regulatory requirements relating to new laws and regulations in connection with overseas listings issued by PRC governmental authorities.

On February 17, 2023, the CSRC issued the Trial Measures for the Administration on Overseas Securities Offering and Listing by Domestic Companies (境內企業境外發行證券和上市管理試行辦法) and five supporting guidelines, which became effective on March 31, 2023 (the "Overseas Listing Regulations"). The Overseas Listing Regulations are applicable to overseas securities offerings and listings conducted by issuers who are PRC domestic companies, including (i) companies incorporated in China; and (ii) companies incorporated overseas with substantial operations in China. The Overseas Listing Regulations lay out the arrangements for regulatory filings for both direct and indirect overseas offerings, and clarify the determination criteria for indirect overseas offerings in overseas markets. The Overseas

Listing Regulations stipulate that an issuer shall fulfill the filing procedures within three working days after it makes an application for offering and listing on an overseas stock market. According to the Overseas Listing Regulations, we, as a PRC domestic company seeking to offer and list securities in overseas markets, are required to fulfill the filing procedure with the CSRC within three working days after submitting the application documents to the overseas supervisory authorities and report relevant information, and we plan to fulfill the required filing procedures. The Overseas Listing Regulations may subject us to additional compliance requirements in the future, and we cannot assure you that we will be able to achieve clearance of our filing procedures under the Overseas Listing Regulations on a timely basis, or at all. Any failure on our part to fully comply with the new regulatory requirements may significantly limit or completely hinder our ability to continue to [**REDACTED**], cause significant disruption to our business operations, and severely damage our reputation, which could affect our financial condition and results of operations and cause our securities to decline in value.

You may have limited recourse in effecting service of legal process or enforcing foreign judgments against us, our Directors and our senior management.

We are an exempted company incorporated in the Cayman Islands, with substantially all of our assets located in mainland China. In addition, a substantial portion of our Directors and senior management members currently reside in mainland China. Therefore, it may be difficult for [**REDACTED**] to directly effect service of process upon those persons in mainland China or to directly enforce against us or them in mainland China any judgments obtained from courts outside of mainland China.

On July 14, 2006, mainland China and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "2006 Arrangement"), pursuant to which a party with a final judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in mainland China. Similarly, a party with a final judgment rendered by a mainland China court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the 2006 Arrangement in which a mainland China court or a Hong Kong court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in mainland China if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the 2006 Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the 2006 Arrangement may still be uncertain. On January 18, 2019, the Supreme People's Court and the Hong Kong SAR Government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the "2019 Arrangement"), which seeks to establish a mechanism with greater clarity and certainty for recognition and enforcement of judgments in a wider range of civil and commercial cases between mainland China and Hong Kong, based on criteria other than a written bilateral choice of court agreement. The 2019 Arrangement will only take effect from its commencement date, which is not yet known. The 2019 Arrangement will, upon its coming into effect, supersede the 2006 Arrangement. However, the 2006 Arrangement will continue to apply to a choice of court agreement in writing signed before the 2019 Arrangement comes into effect. Therefore, before the 2019 Arrangement becomes effective, recognition and enforcement in mainland China of judgments of a foreign court may be difficult.

Our payment of dividends is subject to restrictions under applicable laws and regulations.

As our Company is a holding company, we rely on dividends from our subsidiaries for cash requirements, including servicing any debts our Group may incur. Under the current PRC law, dividends may be paid only out of our PRC subsidiaries' accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Moreover, each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserves, except where such reserve has reached 50% of its registered capital. These reserves are not distributable as cash dividends. In addition, in the future, if any of our PRC subsidiaries incurs debt on its own behalf, the instruments governing the debt may impose restrictions on its ability to pay dividends or other payments to our Company. The inability of our PRC subsidiaries to distribute dividends or other payments to our Company could significantly affect the amount of capital available to supply the development and growth of our business.

Certain of our foreign exchange transactions are subject to regulatory requirements over foreign currency conversion.

We receive substantially all of our revenue in RMB, the conversion and remittance of which are subject to certain foreign exchange regulations. We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments of dividends declared in respect of our Shares, if any. Shortage in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency out of China, or otherwise fulfill their foreign currency-denominated obligations. It cannot be guaranteed that, under a certain exchange rate, we would have sufficient foreign exchange to meet our foreign exchange needs. For example, under the PRC current foreign exchange regulation system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from the SAFE; however, we are required to present relevant documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account, however, normally need to be approved by or registered with SAFE or its local branch, unless otherwise permitted by law. Any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to Shareholders or to fulfill any other foreign exchange obligation. If we fail to obtain approvals from SAFE to convert RMB into any foreign exchange for any of the above purposes, our potential offshore capital expenditure plans and even our business may be affected. Moreover, non-compliance with any applicable foreign exchange regulations could subject us to administrative penalties and fines, and could affect our business and reputation.

We may be classified as a "PRC resident enterprise" for PRC enterprise income tax purposes, and our offshore subsidiaries may be subject to PRC income tax on their worldwide taxable income.

Under the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "EIT Law"), an enterprise established outside China with "de facto management bodies" within China is considered a "resident enterprise," meaning that it is treated in a manner similar to a Chinese enterprise for PRC EIT purposes. The implementing rules of the EIT Law define "de facto management bodies" as "management bodies that exercise substantial and overall management and control over the production and operations, personnel, accounting and properties" of the enterprise. In addition, the Notice Regarding the Determination of Chinese Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, specifies that certain Chinese-controlled offshore incorporated enterprises, defined as enterprises incorporated under the laws of foreign countries or territories and that have PRC enterprises or enterprise groups as their primary controlling shareholders, will be classified as resident enterprises if all of the following conditions are met: (i) senior management personnel and departments that are responsible for daily production, operation and management are located mainly within China; (ii) financial and personnel decisions are subject to determination or approval by bodies or persons in China; (iii) key properties, accounting books, the company seal and minutes of board meetings and shareholders' meetings are located or kept within China; and (iv) at least half of the directors with voting rights or senior management reside within China. The SAT has subsequently provided further guidance on the implementation of Circular 82.

Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, the criteria set forth in the circular may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax resident status of all offshore enterprises. As all of the operational management of our Company is currently based in China, our offshore subsidiaries may be deemed to be "PRC resident enterprises" for the purpose of the EIT Law. If our offshore subsidiaries are deemed PRC resident enterprises, they could be subject to the EIT at 25% of their global income, except that the dividends they receive from our PRC subsidiaries, if any, may be exempt from the EIT to the extent such dividend income constitutes "dividends received by a PRC resident enterprise from its directly invested entity that is also a PRC resident enterprise." Nonetheless, it remains subject to future interpretation as to what type of enterprise would be deemed a "PRC resident enterprise" for such purposes. The EIT on our subsidiaries' global income could significantly increase our tax burden and affect our cash flows and profitability.

You may be subject to PRC withholding tax on dividends from us and PRC income tax on any gain realized on the transfer of our Shares.

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between China and your jurisdiction of residence that provides otherwise, PRC withholding tax at a rate of 10% is normally applicable to dividends from a PRC source paid to investors that are "non-resident enterprises" which do not have an establishment or place of business in China, or which have such establishment or place of business but whose relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is generally subject to 10% PRC income tax if such gain is regarded as income derived from sources within China.

Under the PRC Individual Income Tax law (中華人民共和國個人所得稅法) and its implementation rules, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to PRC income tax at a rate of 20% for individuals. Any PRC tax may be reduced or exempted under applicable tax treaties or similar arrangements. If we are treated as a PRC resident enterprise, dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, may be treated as income derived from sources within China and, as a result, be subject to the PRC income taxes described above. If PRC income tax is imposed on gains realized through the transfer of our Shares or on dividends paid to our non-resident [**REDACTED**], the value of your [**REDACTED**] in our Shares may be materially and adversely affected.

Our operations are subject to and may be affected by changes in tax laws and regulations of the jurisdictions where we operate.

To the extent there are any changes in the laws and regulations governing preferential tax treatment or increases in our effective tax rate due to any other reasons, our tax liability would increase correspondingly. In addition, applicable governmental authorities may amend or restate regulations on income, withholding, value-added and other taxes. Non-compliance with applicable tax laws and regulations may also result in penalties or fines imposed by relevant tax authorities. Adjustments or changes to applicable tax laws and regulations and tax penalties or fines could affect our business, financial condition and results of operations.

Certain of our subsidiaries are entitled to preferential tax treatment. See "Financial Information – Critical Accounting Policies and Estimates – Significant Accounting Policies – Income Tax." Preferential tax treatments granted to us by PRC governmental authorities are subject to review and may be adjusted or revoked in the future. We cannot guarantee that the preferential tax treatments to which our PRC subsidiaries are currently entitled will be successfully renewed. There can be no assurance that the local tax authorities will not, in the future, change their position and discontinue any of our current tax treatments. The discontinuation of any of our current tax treatments could materially increase our tax obligations and adversely impact our net income.

Regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to certain of our subsidiaries.

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant government authorities in China. According to the relevant PRC regulations on foreign invested enterprises in China, the increasing of capital contributions to our PRC subsidiaries is subject to the reporting requirement to the MOFCOM or its local branches and registration with other government authorities in China. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE or its local branches, and (ii) our PRC subsidiaries may not procure loans which exceed a statutory limit. We may not be able to complete such reporting or registrations on a timely basis, or at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such reporting or registration, our ability to use the [**REDACTED**] of this [**REDACTED**] and to capitalize our PRC operations may be adversely affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

The indirect transfers of equity interests in our PRC resident enterprises through transfers made by our Shareholders or our non-PRC holding companies are subject to regulations.

On February 3, 2015, the SAT promulgated the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) ("Circular 7"), which abolished certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Equity Transfers of Non-resident Enterprises (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) ("Circular 698"). Circular 7 provided comprehensive guidelines relating to, and also heightened the Chinese tax authorities' scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a Chinese resident enterprise ("Chinese Taxable Assets"). For example, Circular 7 specifies that where a non-resident enterprise transfers Chinese Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such Chinese Taxable Assets, and such transfer is deemed for the purpose of avoiding EIT payment obligations and without any other bona fide commercial purpose, the transfer may be reclassified by the Chinese tax authorities as a direct transfer of Chinese Taxable Assets.

Although Circular 7 contains certain exemptions, it is unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside of China involving Chinese Taxable Assets, or whether the Chinese tax authorities will classify such transaction by applying Circular 7. Therefore, the Chinese tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisitions by us outside of China involving Chinese Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional Chinese tax reporting obligations or tax liabilities.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our Shares, and the liquidity and [REDACTED] of our Shares may be volatile.

Prior to the [**REDACTED**], there has been no public market for our Shares. We cannot assure you that a public market for our Shares with adequate liquidity and trading volume will develop and be sustained following the completion of the [**REDACTED**]. In addition, the [**REDACTED**] of our Shares is the result of negotiations between our Group and the [**REDACTED**] (for themselves and on behalf of the [**REDACTED**]), which may not be indicative of the price at which our Shares will be traded following the completion of the [**REDACTED**]. The [**REDACTED**] of our Shares may drop below the [**REDACTED**] at any time after the completion of the [**REDACTED**].

The liquidity, trading volume and [REDACTED] of our Shares following the [REDACTED] may be volatile, which could result in substantial losses to you.

The price and trading volume of our Shares may be subject to significant volatility in response to various factors beyond our control, including the general market conditions of the securities in Hong Kong and elsewhere in the world. The Stock Exchange and other securities markets have, from time to time, experienced significant price and trading volume volatility that are not related to the operating performance of any particular company. The business and performance and the [**REDACTED**] of the shares of other companies engaging in similar business may also affect the price and trading volume of our Shares. In addition to market and industry factors, the price and trading volume of our Shares may be highly volatile for specific business reasons, such as fluctuations in our revenue, earnings, cash flows, [**REDACTED**], expenditures, regulatory developments, relationships with our suppliers, movements or activities of key personnel or actions taken by competitors. Moreover, shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

You will incur immediate and significant dilution and may experience further dilution in the future.

The [**REDACTED**] of the [**REDACTED**] is higher than the net tangible asset value per Share immediately prior to the [**REDACTED**]. Therefore, purchasers of the [**REDACTED**] in the [**REDACTED**] will experience an immediate dilution in pro forma consolidated net tangible asset value. There can be no assurance that if we were to immediately liquidate after the [**REDACTED**], any assets would be distributed to Shareholders after the creditors' claims. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of the [**REDACTED**] may experience dilution in the net tangible asset value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time. Furthermore, we may issue Shares pursuant to any existing or future equity incentive plan, which would further dilute our Shareholders' interests in our Company.

We cannot assure you that we will declare and distribute any number of dividends in the future. If we do not pay dividends in the foreseeable future after the [REDACTED], you must rely on price appreciation of our Shares for a return on your [REDACTED].

We cannot assure you when and in what form dividends will be paid on our Shares after the [**REDACTED**]. The declaration and distribution of dividends is at the complete discretion of the Board, and our ability to pay dividends or make other distributions to our Shareholders is subject to various factors, including our business and financial performance, capital and regulatory requirements and general business conditions. We may not be able to have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable. As a result of the above, we cannot assure you that we will make or can make dividend payments on our Shares in the future. See "Financial Information – Dividends."

If we retain most, or all, of our available funds and any future earnings after the [**REDACTED**] to fund the development and commercialization of our new product candidates, we may not expect to pay any cash dividends in the foreseeable future. Therefore, you may not be able to rely on an [**REDACTED**] in our Shares as a source for any future dividend income.

Even if our Board decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on our future results of operations and cash flow, our financial condition, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions and other factors deemed relevant by our Board. Accordingly, the return on your [**REDACTED**] in our Shares will likely depend entirely upon any future price appreciation of our Shares. There is no guarantee that our Shares will appreciate in value after the [**REDACTED**] or even maintain the price at which you purchased the Shares. You may not realize a return on your [**REDACTED**] in our Shares and you may even lose your entire [**REDACTED**] in our Shares.

Future sales or perceived sales of a substantial amount of our Shares in the public market, especially by our Directors, executive officers and substantial Shareholders, could materially and adversely affect the prevailing [REDACTED] of our Shares.

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and substantial Shareholders, or the perception or anticipation that such sales might occur, could negatively impact the [**REDACTED**] of our Shares and our ability to raise equity capital in the future at a time and price that we deem appropriate. A certain amount of the Shares controlled by our substantial Shareholders are subject to certain lock-up periods beginning on the date on which trading in our Shares commences on the Stock Exchange. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

Since there will be a time gap of several days between the [REDACTED] and [REDACTED] of our Shares, holders of our Shares are subject to the risk that the [REDACTED] of our Shares could decline before [REDACTED] in our Shares on the Hong Kong Stock Exchange commences.

The [**REDACTED**] of our Shares is expected to be determined on the [**REDACTED**]. However, our Shares will not commence [**REDACTED**] on the Stock Exchange until they are delivered, which is expected to be several business days after the [**REDACTED**]. As a result, [**REDACTED**] may not be able to [**REDACTED**] or otherwise [**REDACTED**] in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the [**REDACTED**] of our Shares could fall when [**REDACTED**] commences as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time [**REDACTED**] begins.

The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may be different from those in Hong Kong or other jurisdictions.

We are an exempted company incorporated in the Cayman Islands with limited liability. Cayman Islands law differs in some respects from the laws of Hong Kong and other jurisdictions where [**REDACTED**] may be located. Our corporate affairs are governed by our Memorandum and Articles of Association, the Cayman Companies Act and the common law of the Cayman Islands. The rights of our Shareholders to take legal actions against us and our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedents in the Cayman Islands, and from English common law, which has persuasive but not binding authority on a court in the Cayman Islands. The rights of our Shareholders and the fiduciary responsibilities of our Directors under the Cayman Islands law may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong, the United States or other jurisdictions where [**REDACTED**] may be located. See "Appendix III – Summary of the Constitution of the Company and the Company Laws of the Cayman Islands." In particular, the Cayman Islands has a less developed body of securities law. As a result, our Shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, Directors or Controlling Shareholders than they would as shareholders of a Hong Kong company, a United States company or companies incorporated in other jurisdictions.

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various independent third-party sources, including the industry report, contained in this Document.

This Document, particularly the section headed "Industry Overview," contains information and statistics relating to the industry in which we operate. Such information and statistics have been derived from third-party reports, either commissioned by us or publicly accessible, and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. Neither we, the [**REDACTED**], the [**REDACTED**], the Joint Sponsors, the [**REDACTED**], the [**REDACTED**], the [**REDACTED**] nor our or their respective affiliates or advisors have verified the facts, forecasts and statistics nor ascertained the underlying economic assumptions relied upon in those facts, forecasts and statistics obtained from these sources. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

Forward-looking statements contained in this Document are subject to risks and uncertainties.

This Document contains certain statements and information that are forward-looking and uses forward-looking terminology such as "anticipate," "believe," "could," "going forward," "intend," "plan," "project," "seek," "expect," "may," "ought to," "should," "would" or "will" and other similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this Document should not be regarded as representations or warranties by us that our plans and objectives will be achieved, and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this Document, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this Document are qualified by reference to this cautionary statement.

You should read the entire Document carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the [REDACTED].

You are strongly advised to read the entire document carefully and are cautioned against [**REDACTED**] any reliance on the information in any press article or any other media coverage which contains information not disclosed or not consistent with the information included in this Document. Prior to the completion of the [**REDACTED**], there may be press and media coverage regarding our Group and the [**REDACTED**]. Our Directors would like to emphasize to [**REDACTED**] that we do not accept any responsibility for the accuracy or completeness of such information, and such information is not sourced from or authorized by our Directors or our management team. Our Directors make no representation as to the appropriateness, accuracy, completeness and reliability of any information or the fairness or appropriateness of any forecast, view or opinion expressed by the press or other media regarding our Group or our Shares. In [**REDACTED**] as to whether to [**REDACTED**] in our Shares, [**REDACTED**] should rely only on the financial, operational and other information included in this Document.

In preparation for the [**REDACTED**], we have sought the following waivers and exemptions from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, our Company must have sufficient management presence in Hong Kong, which normally means that at least two of our executive Directors must ordinarily reside in Hong Kong. Given that (i) our headquarters and business operations are principally located, managed and conducted in the PRC and will continue to be principally based in the PRC; (ii) most of our Group's executive Directors and senior management team principally reside in the PRC and will continue to reside in the PRC; and (iii) the management and operation of our Group have mainly been under supervision of the executive Directors and senior management of our Company, who are principally responsible for the overall management, corporate strategy, planning, business development and control of our Group's business, our Company considers that it would be more practical for the executive Directors and senior management of our Company to remain ordinarily resident in the PRC where our Group has substantial operations. For the above reasons, we do not have, and do not contemplate in the foreseeable future that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied for, and the Stock Exchange [has granted us], a waiver from strict compliance with Rule 8.12 of the Listing Rules, subject to the following conditions to maintain regular and effective communication between the Stock Exchange and ourselves:

1. **Authorized Representatives**: We have appointed Mr. LI Qibin (李奇斌) and Ms. WANG Xuan (王軒) as our authorized representatives ("**Authorized Representatives**") for the purpose of Rule 3.05 of the Listing Rules. The Authorized Representatives will act as our principal channel of communication with the Stock Exchange and would be readily contactable by phone, facsimile and email to deal promptly with inquiries from the Stock Exchange. The Authorized Representatives possess valid travel documents and are able to renew such travel documents when they expire in order to visit Hong Kong, and accordingly, if required, they will be able to meet with the Stock Exchange to discuss any matters in relation to our Company within a reasonable period of time. The Authorized Representatives are authorized to communicate on our behalf with the Stock Exchange.

2. **Directors**: When the Stock Exchange wishes to contact our Directors on any matter, each of the Authorized Representatives will have all necessary means to contact all of our Directors (including our independent non-executive Directors) promptly at all times. To enhance communication between the Stock Exchange, our Authorized Representatives and our Directors, we have implemented the following measures: (a) each Director will provide his/her mobile telephone number, office phone number, e-mail address and facsimile number (to the extent applicable) to the Authorized Representatives; (b) in the event that a Director expects to travel or is otherwise out of office, he or she will provide the telephone number of the place of his/her accommodation to the Authorized Representatives; and (c) we have provided the telephone number, e-mail address and facsimile number of each Director to the Stock Exchange. Each Directors who is not ordinarily resident in Hong Kong

possesses, or can apply for, valid travel documents to visit and will be able to meet with the Stock Exchange within a reasonable period of time following a request to do so by the Stock Exchange. We will ensure that there are adequate and efficient means of communication among us, the Authorized Representatives and our Directors.

3. **Compliance Advisor**: We have appointed Maxa Capital Limited as our compliance advisor ("**Compliance Advisor**") pursuant to Rule 3A.19 of the Listing Rules, who will provide us with professional advice on continuing obligations under the Listing Rules and act as our additional channel of communication with the Stock Exchange during the period from the [**REDACTED**] to the date on which our Group complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [**REDACTED**]. The Compliance Advisor will also provide advice to our Company in compliance with Rule 3A.23 of the Listing Rules. The Compliance Advisor will be available to answer inquiries from the Stock Exchange and will act as an additional channel of communication with the Stock Exchange when the Authorized Representatives are not available. Our Company will also inform the Stock Exchange promptly in respect of any change in the Compliance Advisor.

WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Rule 8.17 of the Listing Rules provides that our Company must appoint a company secretary who satisfies the requirements under Rule 3.28 of the Listing Rules.

According to Rule 3.28 of the Listing Rules, our Company must appoint an individual, who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

Pursuant to Note 1 to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

(a) a member of The Hong Kong Chartered Governance Institute;

(b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); and

(c) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

In addition, pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing "relevant experience", the Stock Exchange will consider the individual's:

(a) length of employment with the issuer and other issuers and the roles he/she played;

(b) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;

(c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(d) professional qualifications in other jurisdictions.

We have appointed Ms. WANG Xuan (王軒) and Ms. AU Wing Sze (區詠詩) as the joint company secretaries of our Company. See "Directors and Senior Management – Joint Company Secretaries" for further biographical details of Ms. Wang and Ms. Au.

Ms. Au is a member of The Hong Kong Chartered Governance Institute, and fully meets the qualification requirements stipulated under Rule 3.28 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

Through her experience of nearly 20 years in corporate finance and accounting, human resources, and administration management, Ms. Wang has gained a thorough understanding of the corporate governance. Further, as Ms. Wang joined our Company in April 2022, and has been the senior vice president since then, she has day-to-day knowledge of our Company's operations and affairs. Thus, our Company considers that Ms. Wang is capable of discharging her duty as the joint company secretary of our Company by virtue of her background, experience and familiarity with our Company. Accordingly, while Ms. Wang does not possess the qualification required of a company secretary under Rule 3.28 of the Listing Rules, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules on the basis of the arrangements below:

(a) Ms. Wang will endeavor to attend relevant training courses, including briefings on the latest changes to the relevant applicable Hong Kong laws and regulations and the Listing Rules which will be organized by our Hong Kong legal advisors on an invitation basis and seminars organized by the Stock Exchange for listed issuers from time to time;

(b) both Ms. Wang and Ms. Au have confirmed that each of them will be attending a total of no less than 15 hours of training courses on the Listing Rules, corporate governance, information disclosure and investor relations as well as the functions and duties of the company secretary of a Hong Kong-listed issuer during each financial year as required under Rule 3.29 of the Listing Rules;

(c) Ms. Au will assist Ms. Wang to enable Ms. Wang to acquire the relevant experience (as required under Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities as our company secretary;

(d) Ms. Au will communicate regularly with Ms. Wang on matters relating to corporate governance, the Listing Rules and any other laws and regulations which are relevant to our Company and its affairs. Ms. Au will work closely with, and provide assistance to, Ms. Wang in the discharge of Ms. Wang's duties as a company secretary, including organizing our Board meetings and Shareholders' general meetings;

(e) upon expiry of Ms. Wang's initial term of appointment for an initial period of three years from the [**REDACTED**] as the company secretary of our Company, our Company will evaluate her experience in order to determine if she has acquired the qualifications required under Rule 3.28 of the Listing Rules, and whether ongoing assistance should be arranged so that Ms. Wang's appointment as the company secretary of our Company continues to satisfy the requirements under Rules 3.28 and 8.17 of the Listing Rules;

(f) our Company has appointed Maxa Capital Limited as its Compliance Advisor pursuant to Rule 3A.19 of the Listing Rules which will act as the additional communication channel with the Stock Exchange and provide professional guidance and advice to our Company and Ms. Wang as to the compliance with the Listing Rules and all other applicable laws and regulations; and

(g) the waiver can be revoked with immediate effect if Ms. Wang ceases to be assisted by a person with qualifications under Rules 3.28 and 8.17 of the Listing Rules or if there are material breaches of Rules 3.28 and 8.17 of the Listing Rules by our Company.

Before the end of the three-year period, we shall liaise with the Stock Exchange to revisit the situation in the expectation that we should then be able to demonstrate to the Stock Exchange's satisfaction that Ms. Wang, having had the benefit of Ms. Au's assistance for three years, would then have acquired the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules so that a further waiver would not be necessary.

WAIVER IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue certain transactions which will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the [**REDACTED**]. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], waivers from strict compliance with (where applicable) (i) the announcement; (ii) the annual reporting requirement; (iii) the independent Shareholders' approval requirement; (iv) the annual cap requirement; and (v) the requirement of limiting the term of the continuing connected transactions under Chapter 14A of the Listing Rules. For further details in this respect, see "Connected Transactions" in this Document.

[REDACTED]

[REDACTED]

[REDACTED]

[**REDACTED**]

[**REDACTED**]

For further information on our Directors, see "Directors and Senior Management" in this Document.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. LI Qibin (李奇斌)	No. 70, Meikengkou Chuannan Village Yanglin Town, Kaihua County Zhejiang Province China	Chinese
Mr. GUO Yue (郭越)	8818, Lane 538 Qijiguang Road Yiwu, Jinhua Zhejiang Province China	Chinese
Non-executive Directors		
Ms. QI Yan (齊燕)	No. 70, Meikengkou Chuannan Village Yanglin Town, Kaihua County Zhejiang Province China	Chinese
Dr. SU Kai (蘇凱)	303, Building 4 No. 9, Mochou Lake East Jianye District, Nanjing Jiangsu Province China	Chinese

Name	Address	Nationality
Independent non-executive Directors		
Mr. CHAN Wan Tsun Adrian Alan (陳弘俊)	Flat A, 18/F, Block 6 27-37 Perkins Road Cavendish Heights Jardine's Lookout Hong Kong	Chinese (Hong Kong)
Mr. LI Chung Kwong Andrew (李重光)	Room 1701, No. 11 877 Lianmin Road Xujing Town, Qingpu District Shanghai China	Chinese (Hong Kong)
Prof. CHEN Jie (陳潔)	1954 Huashan Road Xuhui District Shanghai China	Chinese

PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors	**Morgan Stanley Asia Limited** 46/F, International Commerce Centre 1 Austin Road West Kowloon, Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	J.P. Morgan Securities (Far East) Limited 28/F, Chater House 8 Connaught Road Central Hong Kong

[REDACTED]

Legal Advisors to our Company	*As to Hong Kong and U.S. laws:* **Clifford Chance** 27/F, Jardine House One Connaught Place Central Hong Kong

As to PRC law:
Jingtian & Gongcheng
45/F, K. Wah Centre
1010 Huaihai Road (M)
Xuhui District
Shanghai
PRC

As to Cayman Islands law:
Harney Westwood & Riegels
3501, The Center
99 Queen's Road Central
Hong Kong

Legal Advisors to the Joint Sponsors and the [REDACTED]

As to Hong Kong and U.S. laws:
Skadden, Arps, Slate, Meagher & Flom and affiliates
42/F, Edinburgh Tower, The Landmark
15 Queen's Road Central
Central, Hong Kong

As to PRC law:
Zhong Lun Law Firm
6, 10, 11, 16, 17/F, Two IFC
8 Century Avenue
Pudong New Area
Shanghai
PRC

Reporting Accountant and Independent Auditor

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

Industry Consultant	**China Insights Industry Consultancy Limited** 10F, Block B, Jing'an International Center 88 Puji Road, Jing'an District Shanghai PRC
Independent Property Valuer	**Jones Lang LaSalle Corporate Appraisal and Advisory Limited** 7/F One Taikoo Place 979 King's Road Hong Kong

[**REDACTED**]

CORPORATE INFORMATION

Registered Office	Office of Sertus Incorporations (Cayman) Limited Sertus Chambers Governors Square, Suite #5-204 23 Lime Tree Bay Avenue P.O. Box 2547, Grand Cayman KY1-1104, Cayman Islands
Head Office and Principal Place of Business in the PRC	Building 3, Lane 268 Taihong Road, Minhang District Shanghai China
Principal Place of Business in Hong Kong	Suite 1220, Two Pacific Place 88 Queensway Hong Kong
Company Website	**https://kayou110.com** *(The information contained in the website does not form part of this Document)*
Joint Company Secretaries	**Ms. WANG Xuan (王軒)** Building 3, Lane 268 Taihong Road, Minhang District Shanghai China **Ms. AU Wing Sze (區詠詩)** 31/F, Tower Two Times Square 1 Matheson Street Causeway Bay Hong Kong
Authorized Representatives	**Mr. LI Qibin (李奇斌)** Building 3, Lane 268 Taihong Road, Minhang District Shanghai China **Ms. WANG Xuan (王軒)** Building 3, Lane 268 Taihong Road, Minhang District Shanghai China
Audit Committee	Mr. CHAN Wan Tsun Adrian Alan (陳弘俊) (Chairperson) Dr. SU Kai (蘇凱) Prof. CHEN Jie (陳潔)

Remuneration Committee	Prof. CHEN Jie (陳潔) (Chairperson) Mr. LI Qibin (李奇斌) Mr. LI Chung Kwong Andrew (李重光)
Nomination Committee	Mr. LI Qibin (李奇斌) (Chairperson) Mr. CHAN Wan Tsun Adrian Alan (陳弘俊) Mr. LI Chung Kwong Andrew (李重光)
Compliance Advisor	**Maxa Capital Limited** Unit 1908, Harbour Center 25 Harbour Road Wanchai Hong Kong

[**REDACTED**]

Principal Bankers	**Industrial and Commercial Bank of China, Yiwu Branch** No. 128 Huangyuan Road Yiwu Zhejiang Province China **China Merchants Bank Shenzhen Branch** China Merchants Bank Shenzhen Branch Building, No. 2016 Shennan Boulevard Futian District Shenzhen Guangdong Province China **China Merchants Bank Shanghai Branch The Bund Sub-branch** No. 16 Zhongshan Dong Yi Road Huangpu District Shanghai China

The information and statistics set forth in this section were extracted from official government publications, public market research and independent research. In particular, we engaged CIC, an independent market research and consulting company, to prepare an industry report, or the CIC Report for the [**REDACTED**]. *Except as otherwise noted, all of the information contained in this section is derived from the CIC Report. We believe that the sources of the information set forth in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information from official government sources has not been independently verified by us, the Joint Sponsors, the* [**REDACTED**], *the* [**REDACTED**], *the* [**REDACTED**], *the* [**REDACTED**], *any of the* [**REDACTED**], *any of their respective directors, officers and advisors, or any other persons or parties involved in the* [**REDACTED**], *except for CIC, and no representation is given as to its accuracy. Accordingly, the information from official governmental sources contained herein may not be accurate and should not be unduly relied upon.*

THE PAN-ENTERTAINMENT PRODUCT INDUSTRY IN CHINA

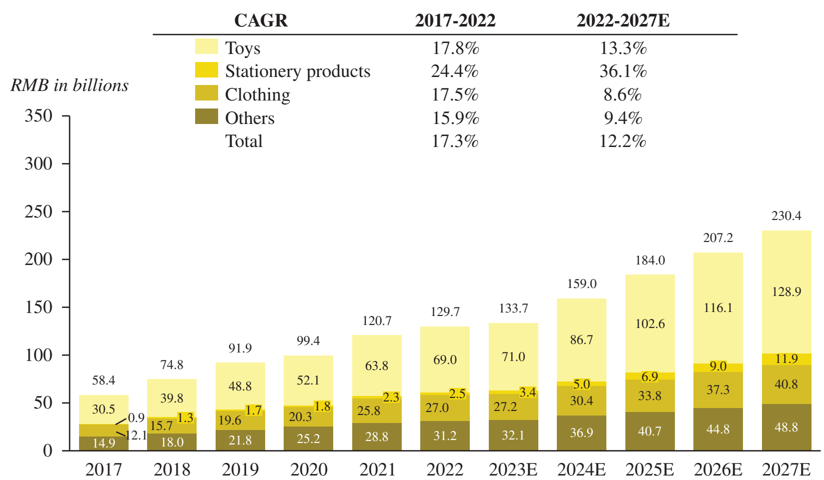
Overview of the Pan-entertainment Product Industry in China

Pan-entertainment products are physical products such as toys, stationery products, clothing and other consumer goods developed based on IPs. The theme of a pan-entertainment product can be a story, a character or any other IP content. Pan-entertainment products themed on IP content tend to bond with IP audience and gain market momentum.

The pan-entertainment product industry in China has experienced rapid growth in recent years, due to the increasing consumer demand and also because IP holders have sensed the importance of pan-entertainment products in building up their IP ecosystem, extending IP lifespan and augmenting IP values. The market size of the pan-entertainment product industry in terms of GMV in China increased at a CAGR of 17.3% from RMB58.4 billion in 2017 to RMB129.7 billion in 2022. The pan-entertainment product industry in China is in an early development phase as compared with those in Japan and the U.S. Drivers such as a broadening consumer base, continuously increasing and diversifying consumer demand, improving product quality and diversifying product offerings, are expected to further propel the development of the pan-entertainment product industry in China, of which the market size is expected to reach RMB230.4 billion by 2027.

Pan-entertainment toys constituted the largest sector in the pan-entertainment product industry in China, representing 53.2% of the entire market size in 2022. Pan-entertainment stationery products constituted the fastest-growing sector in the pan-entertainment product industry in China, with the market size growing at a CAGR of 24.4% from 2017 to 2022 and an estimated CAGR of 36.1% from 2022 to 2027.

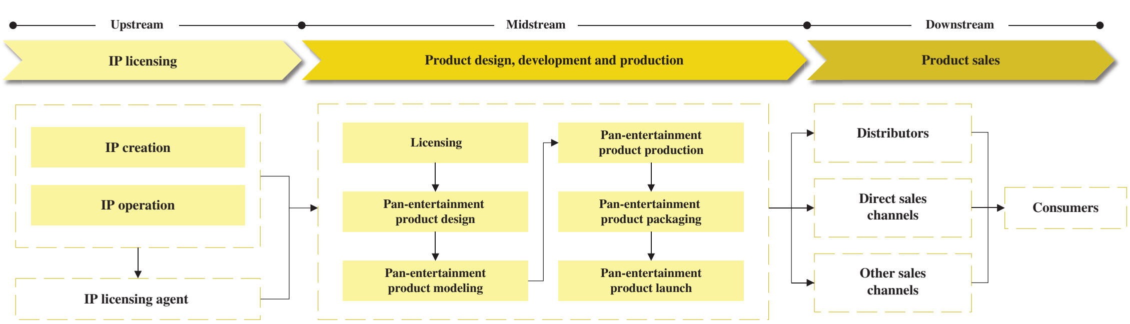
The market size of the pan-entertainment product industry, in terms of GMV, China, 2017-2027E



Source: CIC Report

The value chain of the pan-entertainment product industry in China covers IP licensing, product design, development, production and sales as illustrated below:

Value chain of the pan-entertainment product industry in China



Source: CIC Report

Overview of the Pan-entertainment Toy Industry in China

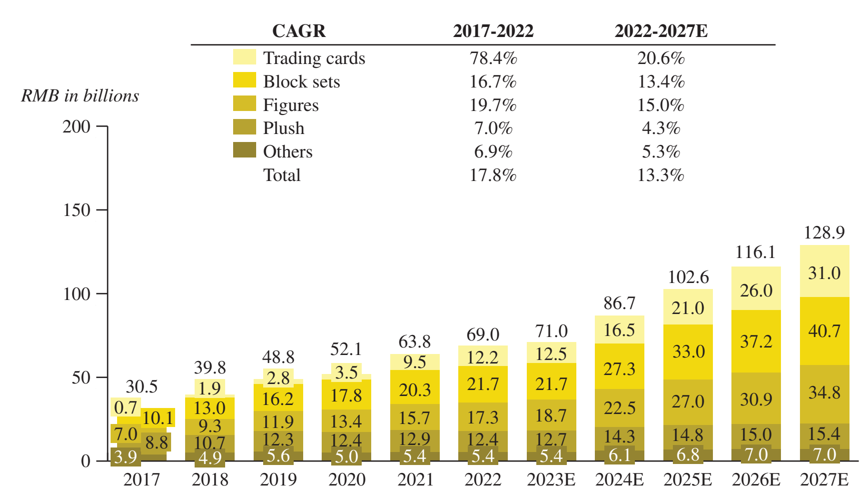
Pan-entertainment Toy Industry in China

Pan-entertainment toys primarily include trading cards, block sets, figures, plush and other toys. On the one hand, pan-entertainment toys benefit from quality IP content and can attract and bond with IP audience. On the other hand, the playability and interactivity of toys can in turn help the IPs to solidify and expand the audience base.

The pan-entertainment toy industry in China has demonstrated impressive growth in recent years driven by strong consumer demand for toys themed on popular IPs. The market size of the pan-entertainment toy industry in terms of GMV in China increased at a CAGR of 17.8% from RMB30.5 billion in 2017 to RMB69.0 billion in 2022. The diversification of IP content and pan-entertainment toy categories are expected to create new growth engines for the pan-entertainment toy industry. The market size of the pan-entertainment toy industry in terms of GMV in China is expected to reach RMB128.9 billion in 2027 at a CAGR of 13.3% from 2022 to 2027. Pan-entertainment toys represented 53.2% of the entire market size of the pan-entertainment product industry in China in 2022, and this percentage is estimated to further increase to 55.9% by 2027.

Trading cards and figures are two important sectors in the pan-entertainment toy industry in China. Trading cards constituted the fastest-growing sector in the pan-entertainment toy industry in China, with the market size growing at a CAGR of 78.4% from 2017 to 2022. Trading cards represented 17.6% of the entire market size of the pan-entertainment toy industry in China in 2022, and this percentage is estimated to further increase to 24.1% by 2027. The market size of the figure sector in the pan-entertainment toy industry in China also increased rapidly at a CAGR of 19.7% from 2017 to 2022.

The market size of the pan-entertainment toy industry by product category, in terms of GMV, China, 2017-2027E

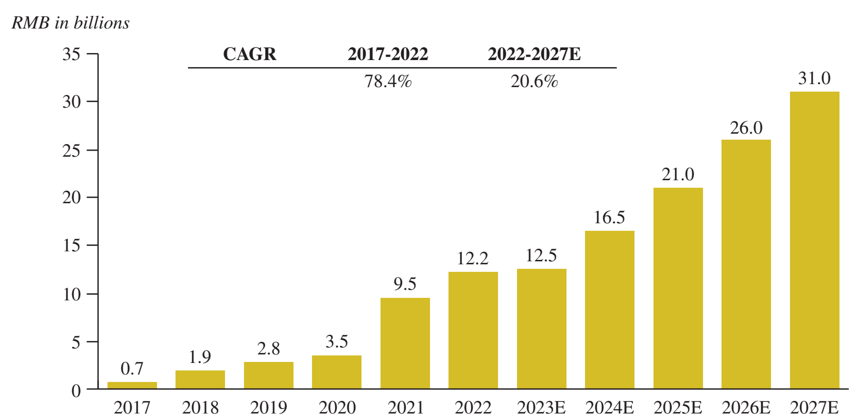


Source: CIC Report

Trading Card Industry in China

Trading cards are physical cards showcasing distinctive themes, which are designed for collection, trading or game among consumers. The market size of the trading card industry in terms of GMV in China had significantly increased at a CAGR of 78.4% from RMB0.7 billion in 2017 to RMB12.2 billion in 2022, and is estimated to reach RMB31.0 billion in 2027 at a CAGR of 20.6% from 2022 to 2027. The trading card industry was temporarily impacted in 2023 due to public health incidents.

The market size of the trading card industry, in terms of GMV, China, 2017-2027E



Source: CIC Report

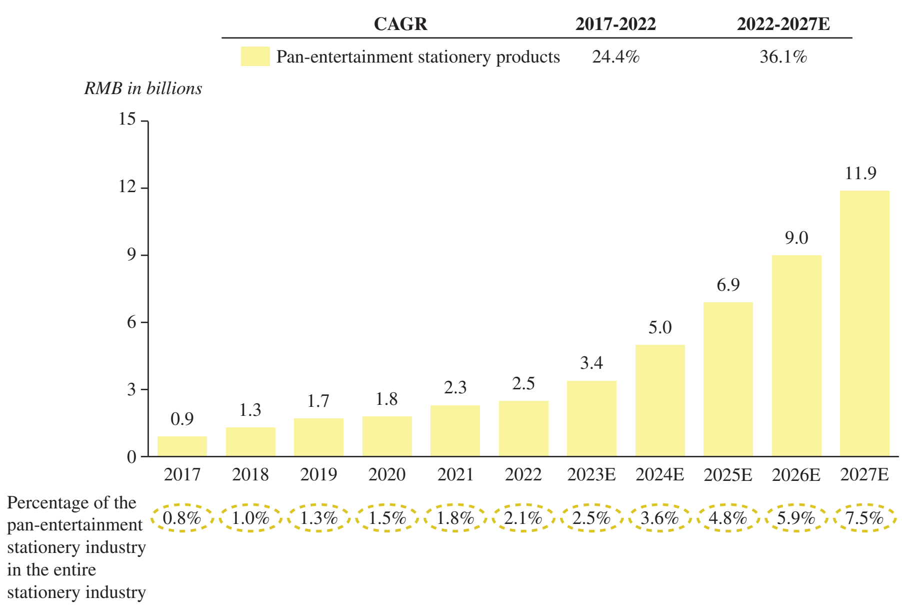
The U.S., China and Japan are key trading card markets globally. In 2022, the market size of the trading card industry in terms of GMV in the U.S., China and Japan was RMB17.2 billion, RMB12.2 billion and RMB11.4 billion, respectively. Japan, in particular, renowned as one of the birthplaces of the animation and game industry, possesses abundant IP content resources for trading card development. Compared with consumers in developed countries such as Japan and the U.S., where the trading card industry has been established for many years, per capita expenditure on trading cards is significantly lower in China, demonstrating substantial growth potential. Specifically, in 2022, the per capita expenditure on trading cards in Japan was RMB92.3, and that in the U.S. was RMB50.7, representing approximately 11 times and six times the amount spent on trading cards, RMB8.6, by consumers in China, respectively. The market size of the trading card industry in terms of GMV in Southeast Asia reached RMB1.7 billion in 2022 and is expected to grow rapidly in the next five years.

Overview of the Pan-entertainment Stationery Industry in China

The stationery industry in China has a vast market with its market size in terms of GMV increasing from RMB105.4 billion in 2017 to RMB123.1 billion in 2022, and estimated to reach RMB158.4 billion in 2027. The stationery industry in China is seeing constant growth driven by improving product quality and diversifying product themes.

Pan-entertainment stationery products typically include writing tools, notebooks and other stationery products developed based on IP content. The pan-entertainment stationery industry in China is at an early development phase. The market size of the pan-entertainment stationery industry in terms of GMV in China increased at a CAGR of 24.4% from RMB0.9 billion in 2017 to RMB2.5 billion in 2022, and is expected to reach RMB11.9 billion in 2027 at a CAGR of 36.1% from 2022 to 2027. The pan-entertainment stationery industry in China is laid on the solid foundation of the whole mature stationery industry in China. Characterized by both functionality and creativity, pan-entertainment stationery products tend to have significant growth potential driven by the rising consumer demand for IP-themed stationery products, increasing and diversifying IPs as well as increasing penetration of IP-themed products in each stationery category. Pan-entertainment stationery products represented 2.1% of the entire market size of the stationery industry in China in 2022, and this percentage is estimated to further increase to 7.5% by 2027.

The market size of the pan-entertainment stationery industry, in terms of GMV, China, 2017-2027E



Source: CIC Report

Drivers and Trends for the Pan-entertainment Product Industry

Growing and Diversifying Consumer Base. The consumer base for pan-entertainment products is expected to gradually expand, laying a solid foundation for more market opportunities. Consumers increasingly advocate positive and healthy entertainment options and are supportive of pan-entertainment products such as trading cards which can enhance consumer experience in terms of entertainment, cognitive development and social interaction, helping to foster aesthetic awareness and convey positive values. New types of IP themes for pan-entertainment products, such as those incorporating cultural values and other fun elements, are gaining popularity and attracting an expanding and diversifying consumer base.

Continuously Increasing and Diversifying Consumer Demand. The demand for pan-entertainment products is continuously increasing and diversifying as a result of consumers' growing and deepened interests in popular IPs as well as their intensifying pursuit of emotional satisfaction through consumption. Meanwhile, certain pan-entertainment products such as toys can provide immersive fun experience and satisfy social interaction needs. Pan-entertainment toys encourage consumers to discuss, exchange and play with their collectibles, fostering a sense of belonging through shared interests and creating strong social bonds. These enriching social interactions can in turn stimulate purchases of pan-entertainment toys. On the other hand, pan-entertainment products such as stationery products combine functionality and creativity, and augment synergies with other pan-entertainment products with cross-category product display, further stimulating consumer demand.

Increasing Attention from IP Holders on Pan-entertainment Products. Pan-entertainment products not only offer diverse consumer experience, but also play a crucial role in the dissemination of associated IP content, aiding IP holders to build up their IP ecosystems, extend IP lifespan and augment IP values. Therefore, IP holders are actively exploring business opportunities in pan-entertainment product development and production.

Upgrading Production Capabilities. Leading pan-entertainment product companies are consistently optimizing production processes, introducing advanced production technologies and enhancing quality control. As a result, quality pan-entertainment products are produced more efficiently at reducing costs, boosting consumer satisfaction and stimulating consumption. Meanwhile, diversification in product offerings fueled by the continuous product innovation efforts of leading companies can also amplify consumer enthusiasm for pan-entertainment products.

Expanding Overseas Business. Overseas markets have a broad consumer base with interests in pan-entertainment products, providing significant business opportunities for the pan-entertainment product companies in China. These companies can improve their brand recognition and global influence by expanding presence in overseas markets.

COMPETITIVE LANDSCAPE OF THE PAN-ENTERTAINMENT PRODUCT INDUSTRY IN CHINA

There are a multitude of enterprises engaged in the pan-entertainment product industry in China, resulting in relatively low industry concentration. The top five companies in the pan-entertainment product industry in China accounted for 25.9% of the total market share in terms of GMV in 2022. Certain internationally renowned brands hold meaningful market shares in the industry while the leading domestic pan-entertainment product companies have experienced rapid growth in recent years. We ranked second in the pan-entertainment product industry in China in terms of GMV in 2022 with a market share of 7.0%.

Ranking of the top five pan-entertainment product companies, in terms of GMV, China, 2022

Ranking	Company	GMV, RMB in billions, 2022	Market share
1	Company A	12.6	9.7%
2	Our Group	9.1	7.0%
3	Company B	5.0	3.9%
4	Company C	4.4	3.4%
5	Company D	2.5	1.9%

Notes:

Company A: a private company founded in 1932, based in Billund, Denmark, which mainly offers pan-entertainment products.

Company B: a multinational mass media and entrainment conglomerate in U.S., listed on the New York Stock Exchange, founded in 1923 and headquartered in Burbank, California, which engages in sectors including pan-entertainment products, media networks, parks and resorts, among others.

Company C: a Chinese company which mainly offers pan-entertainment toys, listed on the Hong Kong Stock Exchange, headquartered in Beijing and founded in 2010.

Company D: a Japanese company which engages in the development, production and sales of entertainment-related products and services, headquartered in Tokyo and listed on the Tokyo Stock Exchange, founded in 2005 by the merger of two leading Japanese entertainment companies.

Source: CIC Report

The top five companies in the pan-entertainment toy industry in China accounted for 44.3% of the total market share in terms of GMV in 2022. Benefiting from our robust product design and innovation capabilities and advanced production capabilities, we have established leading industry position and strong brand recognition. We ranked second in the pan-entertainment toy industry in China in terms of GMV in 2022 with a market share of 13.1%.

Ranking of the top five pan-entertainment toy companies, in terms of GMV, China, 2022

Ranking	Company	GMV, RMB in billions, 2022	Market share, 2022
1	Company A	12.6	18.3%
2	Our Group	9.0	13.1%
3	Company C	4.4	6.4%
4	Company B	2.5	3.6%
5	Company D	2.0	2.9%

Source: CIC Report

The trading card industry in China is highly concentrated. The top five companies in the trading card industry in China accounted for 76.7% of the total market share in terms of GMV in 2022. We ranked first in the trading card industry in China in terms of GMV in 2022 with a market share of 71.0%.

The pan-entertainment stationery industry in China is in an early development phase and the top ten companies in the pan-entertainment stationery industry in China accounted for 47.1% of the total market share in terms of GMV in 2022. We ranked seventh in the pan-entertainment stationery industry in China in terms of GMV in 2022.

Entry Barriers of the Pan-entertainment Product Industry in China

Strong Brand Recognition. Brands with strong recognition are typically more successful in cultivating a loyal consumer base. Consumers have more confidence in purchasing products from renowned brands, as their strong recognition is generally built upon proven track records in providing high-quality products. Leading companies in the pan-entertainment product industry typically have a competitive edge over new entrants in terms of brand recognition.

Innovative and Efficient Product Design and Development. Leading companies in the pan-entertainment product industry in China generally have strong product design and development capabilities benefiting from accumulated consumer insights, streamlined product design and development process and established talent team. The strong product design and development capabilities lay a solid foundation for continuous new product launch catering to evolving consumer preferences and market trends.

Superior Product Quality and Economies of Scale. Leading companies in the pan-entertainment product industry in China typically have robust quality control measures to ensure product quality, while new entrants in the industry often face challenges in meeting the established industry standards on product quality due to a lack of experience or resources. In addition, leading companies generally benefit from economies of scale, which allows them to cost-effectively procure high-quality materials and introduce advanced production equipment. They also possess abundant resources to improve technologies and optimize production processes. New entrants may not have the supply resources or business scale to compete with existing market players at the same level.

Abundant IP Content Resources. An extensive accumulation of IP content resources allows pan-entertainment product companies to be more creative, adaptable and competitive in the industry, as it can support the development of a wide range of products that cater to diverse consumer preferences. New entrants in the industry may face challenges in quickly building up such resources and may take time to establish collaborations with IP creators or holders. In this regard, leading companies generally have the advantage of readily owning or accessing an extensive IP matrix.

Robust IP Operation Capabilities. To maximize the value of well-known IP content, pan-entertainment product companies need to possess robust IP operation capabilities, in particular gamification operations. They are required to be capable of designing, producing and selling products of varied categories, as well as promoting products through varied interactive activities such as game events. To successfully enter the industry, new entrants need to be well-prepared with innovative IP operation capabilities in terms of product development and gamification operations.

Well-established Sales Network. Pan-entertainment product companies need to establish a broad sales network to ensure effective product promotion, distribution and sales. New entrants typically need to invest considerable time and resources to establish an extensive sales network. Leading companies with well-established nationwide sales network tend to have a strong competitive edge.

Capital Investment. The design, development, production, sales and marketing of pan-entertainment products generally require continuous capital investment. In particular, production of high-quality pan-entertainment products necessitates capital expenditures on production bases and advanced production equipment. Therefore, capital investment has become a critical barrier for new entrants in the pan-entertainment product industry in China.

SOURCE OF INDUSTRY INFORMATION

We commissioned CIC to conduct research on, provide an analysis of, and to produce the CIC Report on the pan-entertainment product industry in China. CIC is an independent market research and consulting company that provides industry consulting services, commercial due diligence, and strategic consulting services to both institutional investors and corporations. We have agreed to pay RMB600,000 to CIC for the preparation of the CIC Report.

CIC conducted both primary and secondary research. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analyzing data from publicly available data sources, such as the National Bureau of Statistics, the Association of Japanese Animation, the Japanese Toy Association and the U.S. Toy Association.

CIC's projection on the market size of each of the pan-entertainment product industry and related industries in China are based on the following assumptions: (i) the overall global social, economic and political environment is expected to maintain a stable trend over the next decade; (ii) related key industry drivers are likely to continue propelling growth in the pan-entertainment product industry and related industries in China during the forecast period; and (iii) there are no extreme force majeure events or industry regulation changes which may dramatically or fundamentally affect the market situation. Unless otherwise specified, all data and forecasts contained in this section are derived from the CIC Report. Our Directors confirm that, after making reasonable enquiries, there has been no adverse change in the market information since the date of the CIC Report that may qualify, contradict or have a material impact on the information in this section.

This section sets forth a summary of the most significant laws and regulations that affect our business and the industry in which we operate in the PRC.

REGULATIONS ON OFFLINE BUSINESS

Regulations on Pan-entertainment Product Retail

Regulations on Purchase Contract

Pursuant to the Civil Code of the People's Republic of China (《中華人民共和國民法典》), which was adopted by the National People's Congress of the PRC (the "**NPC**", 全國人民代表大會) and promulgated accordingly by the President Order No. 45 on May 28, 2020 and became effective on January 1, 2021, where the purpose of a contract cannot be achieved because the quality of the subject matter does not comply with the quality requirements, the buyer may refuse to accept the subject matter or terminate the contract. Where the buyer request to return the subject matter or terminate the contract in accordance with PRC applicable laws, the seller shall bear the risk of return of the payment to buyer and liquidation damages to the subject matter. The seller shall deliver the subject matter according to the agreed quality requirements. In case that the seller provides the quality specifications concerning the subject matter, the delivered subject matter shall comply with the quality requirements in such specifications. If the terms in relation to quality are not met, the liability for breach of contract shall be borne by the seller in accordance with the agreement between the parties.

Regulations on Pricing

According to the Pricing Law of the People's Republic of China (《中華人民共和國價格法》), promulgated by the SCNPC on December 29, 1997, and became effective on May 1, 1998, Business Operators shall follow the principles of fairness, lawfulness and good faith in fixing prices. Business Operators shall not commit any illegitimate price acts: colluding with others to manipulate the market price, thus harming the lawful rights and interests of other Operators or consumers; besides the disposal of perishable, seasonal and overstocked commodities at reduced prices in accordance with the law, dumping commodities at prices lower than the cost in order to drive out rivals or monopolize the market, thus disrupting the normal production and operation order and impairing the interests of the State or the lawful rights and interests of other Operators; fabricating and spreading information about price hikes and forcing up prices, thus stimulating excessive commodity price hikes; using false or misleading means in terms of price to deceive consumers or other Operators into trading with them; employing price discrimination against other Operators with equal transaction conditions while providing the same commodities or services; forcing up or forcing down prices in disguised form by raising or lowering grades when purchasing or selling commodities or providing services; making exorbitant profits in violation of the provisions of laws and regulations; or other illegitimate price acts prohibited by laws and administrative regulations. Where a Business Operator commits any illegitimate price acts, such Operator shall be ordered to make correction, and the illegal gains thereof shall be confiscated, a fine not more than five times the illegal gains may be imposed on such Operator; if there are no illegal gains, such

Operator shall be given a warning and may also be fined; if the circumstances are serious, such Operator shall be ordered to suspend the business for rectification, or have the business license thereof revoked by the administrative department for industry and commerce, or should such illegitimate price acts be otherwise subject to any penalties or punitive orders under other relevant PRC applicable laws, such laws shall also apply and business operators shall abide by such laws.

Regulations on Consumer Protection

Pursuant to the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (2013 Amendment) (《中華人民共和國消費者權益保護法》(2013修正)), promulgated by the SCNPC on October 31, 1993, and last amended on October 25, 2013, and became effective on March 15, 2014, Business Operators shall provide consumers with truthful and full information concerning the quality, performance, purpose and term of validity of the goods or services they provide and shall not make any false or misleading statements. Business Operators shall:

1. ensure that goods and services provided to consumers comply with relevant laws and regulations, including requirements regarding personal safety and protection of property;

2. issue vouchers for goods or services to consumers in accordance with relevant national regulations or business practices or upon the request of a consumer;

3. ensure the quality, functionality, application and duration of use of the goods or services under normal use and ensure that the actual quality of the goods or services are consistent with that displayed in advertising materials, product descriptions, sample apparel or any other manners;

4. properly perform its responsibilities for guaranteed repair, replacement, return or other liability in accordance with national regulations or any agreement with consumers;

5. not set unreasonable or unfair terms for consumers or excluding itself from civil liability for undermining the legal rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices and the like;

6. listen to the consumers' opinions on the commodities and services they supply and accept consumers' supervision;

7. not insult or slander consumers, may not search the body of consumers or the articles they carry with them, and may not violate the personal freedom of consumers.

A Business Operator who practices fraud while providing goods or services for consumers shall be liable for compensation for damages in accordance with the Law of the People's Republic of China on the Protection of Consumer Rights and Interests. Consumers whose legitimate rights and interests are infringed while purchasing goods or receiving services via an online trading platform shall have the right to claim compensation from the vendor of the goods or the provider of the services. Where the Operator of the online trading platform cannot provide the real name, address and effective contact of the vendor or the service provider, the consumers shall have the right to claim compensation from the Operator of the online trading platform; where the Operator of the online trading platform has made commitments in more beneficial terms to the consumers, they shall deliver on their commitments. After compensating the consumers, the Operator of the online trading platform shall in turn have the right to claim compensation from the vendor or service provider. Where the Operator of the online trading platform is or should be aware or have good reason to know that the seller or the service provider is using its platform to harm the legitimate rights and interests of consumers but fails to adopt the requisite measures, the Operator of the online trading platform shall be liable jointly and severally with the seller or the service provider pursuant to the law.

Violations of the PRC Consumer Protection Law may result in the imposition of fines. In addition, the relevant Business Operator will be ordered to suspend its operations and its business licence will be revoked. Criminal liability may be incurred if the Business Operator constitutes crime. According to the PRC Consumer Protection Law, a consumer whose legal rights and interests are prejudiced during the purchase or use of goods may demand compensation from the seller. Where the responsibility lies with the manufacturer or another seller that provides the goods to the seller, the seller shall, after settling the claim, have the right to recover such claim from that manufacturer or that other seller. Consumers or parties who suffer injuries or property losses due to product defects in commodities may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling the claim, have the right to recover such claim from the manufacturer, and vice versa.

Regulations on Products Quality and Liability

The principal legal provisions governing product liability are set out in the Product Quality Law of the People's Republic of China (2018 Amendment) (the "**PRC Product Quality Law**", 《中華人民共和國產品質量法》(2018修正)), which was promulgated by the SCNPC on February 22, 1993, became effective on September 1, 1993 and was last amended and became effective on December 29, 2018. The PRC Product Quality Law is applicable to all activities of production and sale of any product within the territory of the PRC, and the manufacturers and sellers shall be liable for product quality in accordance with the PRC Product Quality Law. In the event of a violation of any legal provisions of the PRC Product Quality Law, manufacturers and sellers may be fined, suspended of operation, confiscated of any products illegally manufactured or sold and the proceeds gained therefrom or stripped of business licenses, and where the circumstances are serious, criminal liability shall be pursued. Consumers or other victims suffering personal injuries or property damage resulting from defects in commodities may demand compensations either from the sellers or from the manufacturers. If the liability lies with the manufacturers, the sellers shall have the right to recover the compensations from the manufacturers after paying the compensations, or vice versa.

According to the Civil Code of the People's Republic of China (《中華人民共和國民法典》), which was adopted by the NPC and promulgated accordingly by the President Order No. 45 on May 28, 2020 and became effective on January 1, 2021, a manufacturer or a commercial seller is subject to liability for harm to persons or property caused by the product defects. The infringed may seek compensation from the manufacturer or the commercial seller. Where the infringed seeks compensation from the commercial seller, the commercial seller shall have the right to make a claim against the liable manufacturer after it has made compensation. Where any harm is caused to another person by a defective product and the defect is caused by the fault of a third party such as carrier or warehouseman, the manufacturer or seller of the product that has paid the compensation shall be entitled to be reimbursed by the third party. Where any defect of a product is discovered after the product is put into circulation, the manufacturer or seller shall take such remedial measures as warning and recall in a timely manner, otherwise any failure to react timely or sufficiently that concurrently causes damages shall subject such manufacturer or seller to tort liabilities. However, where a manufacturer or seller is aware of any defect of a product but knowingly refuses to terminate its operation activities, severely jeopardizing the life and health of any another person, such person or its successor suffering such tort shall be entitled to punitive damages or other indemnifications to the extent permitted by laws.

Regulations on Unfair Competition

The Anti-Unfair Competition Law of the People's Republic of China (2019 Amendment) (the "**PRC Anti-Unfair Competition Law**", 《中華人民共和國反不正當競爭法》(2019修正)), which was promulgated by the SCNPC on September 2, 1993, and last amended and became effective on April 23, 2019, prohibits Business Operators from performing unfair competitions. According to the PRC Anti-Unfair Competition Law, Business Operators shall not perform any confusing acts that will enable people to mistake its products for another business's products or believe certain relations exist between its products and any business's products, such as unauthorized use of a mark that is identical or similar to the name, packaging or decoration of another business's commodity, which has influence to a certain extent; unauthorized use of another business's corporate name (including its shortened name, trade name, etc.), the name of a social group (including its shortened name, etc.), or the name of an individual (including his/her pen name, stage name, translated name, etc.), which has influence to a certain extent; unauthorized use of the main domain name, website name or webpage, which has influence to a certain extent; and other confusing acts that are sufficient to enable people to mistake its products for another business's products or believe certain relations exist between its products and any business's products. Where a Business Operator performs any confusing act, the supervision and inspection authority shall order it to cease the offense, and confiscate its illicit commodities. If the illicit turnover exceeds RMB50,000, it shall be fined up to five times the illicit turnover. If there is no illicit turnover or the illicit turnover is less than RMB50,000, it shall be fined up to RMB250,000; where the circumstance is serious, its business license shall be revoked.

Business Operators shall not conduct commercial promotions for the performance, function, quality, sales status, user evaluation, honor received concerning its products in a false or misleading manner, attempting to cheat or mislead consumers. Where a Business Operator conducts commercial promotions for its commodities in a false or misleading manner, or assists other Business Operators with commercial promotions in a false or misleading manner by way of organizing false transactions or by other means, the competent supervision and inspection authority shall order the Business Operator to cease its violations and impose on it a fine of between RMB200,000 and RMB1,000,000; where the circumstance is serious, it shall be fined between RMB1,000,000 and RMB2,000,000, and its business license may be revoked. Where a Business Operator constitutes the releasing of a false advertisement, it shall be punished according to the Advertising Law of the People's Republic of China.

Regulations on Advertising

According to the Advertising Law of the People's Republic of China (2021 Amendment) (《中華人民共和國廣告法》(2021修正)), promulgated by the SCNPC on October 27, 1994, and last amended and became effective on April 29, 2021, no advertisement shall contain any false or misleading information, and shall not deceive or mislead consumers. Where a false advertisement is published, the advertisers shall be ordered to cease publishing the advertisements, minimize and eliminate any adverse effects to a corresponding extent, and a fine of not less than three times and not more than five times the advertising fees shall be imposed, and where the advertising fees cannot be calculated or are significantly low, a fine of not less than RMB200,000 and not more than RMB1,000,000 shall be imposed; where the illegal activities have been committed more than three times within two years or there are other serious circumstances, a fine of not less than five times and not more than ten times the advertising fees shall be imposed, and where the advertising fees cannot be calculated or are significantly low, a fine of not less than RMB1,000,000 and not more than RMB2,000,000 shall be imposed; the business licenses may be revoked, and the approval documents for the advertisement may be revoked and void, and any applications by such advertisers for advertisement review may be no more accepted within the following one (1) year. With regard to publishing false advertisements that deceive or mislead consumers, causing damage to the legitimate rights and interests of consumers who have purchased the products or used the services so advertised, the advertisers shall bear civil responsibilities in accordance with the law. Where an advertising agent or advertisement publisher fails to provide the true name, address and valid contact information of the advertiser(s), the consumers may require the advertising agent or advertisement publisher to make advance compensation. In case that the advertising agents, advertisement publishers or advertisement endorsers for such advertisements design, produce, provide agency, publish or make endorsements or testimonials for the advertisements even though they know or should know the advertisements are false, they shall bear joint and several liabilities with the advertisers concerned.

Regulations on Production

Regulations on Printing Industry

The Regulations on Administration of Printing Industry (2020 Revision) (《印刷業管理條例》(2020修訂)), promulgated by the State Council on March 8, 1997, and amended and became effective on November 29, 2020, require enterprises engaged in printing industry shall acquire a printing business permit. No enterprise or individual shall engage in printing business activities without first obtaining a printing business permit. An enterprise engaging in printing business activities shall satisfy the following requirements:

1. The enterprise name and articles of association are in place;

2. It has a determined scope of business;

3. It has the business premises corresponding to its scope of business, and the requisite production and business conditions such as the requisite funds and equipment;

4. It has an organisational structure and staffing personnel which correspond to the requirements of the business scope; and

5. Any other criteria stipulated by the relevant laws and administrative regulations.

The activities of setting up a foreign-invested printing enterprise are currently regulated by the Interim Measures on the Qualifications of Print Operators (2017 Revision) (《印刷業經營者資格條件暫行規定》(2017修正)) promulgated on December 11, 2017 and effective on the same date, the Provisional Regulations on the Establishment of Foreign-Invested Printing Enterprises (2015 Revision) (《設立外商投資印刷企業暫行規定》(2015修正)) promulgated on August 28, 2015 and effective on the same date, which was supplemented by the Supplementary Provisions to the "Interim Provisions on Establishment of Foreign-Invested Printing Enterprises" (關於《設立外商投資印刷企業暫行規定》的補充規定) promulgated on November 12, 2008 and effective on January 1, 2009 and the Supplementary Provisions (II) to the Provisional Provisions on the Establishment of A Foreign-Invested Printing Enterprise (關於《設立外商投資印刷企業暫行規定》的補充規定(二)) promulgated on December 12, 2012 and effective on January 1, 2013. According to the above-mentioned applicable regulations, the State allows the establishment of wholly foreign-owned printing enterprises engaged in the printing and business activities of packaging and decorative printed matter.

Regulations on Environmental Protection

The Environmental Protection Law of the PRC (2014 Revision) (the "**Environmental Protection Law**",《中華人民共和國環境保護法》(2014修訂)) was promulgated and effective on December 26, 1989, and amended on April 24, 2014 and became effective on January 1, 2015. The Environmental Protection Law has been formulated for the purpose of protecting and improving both the living environment and the ecological environment, preventing and controlling pollution, other public hazards and safeguarding people's health. According to the provisions of the Environmental Protection Law, in addition to other relevant laws and regulations of the PRC, the Ministry of Environmental Protection and its local counterparts take charge of administering and supervising said environmental protection matters. The environmental impact statement on any such construction project must assess the pollution that the project is likely to produce and its impact on the environment, and stipulate preventive and curative measures; the statement shall be submitted to the competent administrative department of environmental protection for approval. Installations for the prevention and control of pollution in construction projects must be designed, built and commissioned together with the principal part of the project.

Permission to commence production at or utilize any construction project shall not be granted until its installations for the prevention and control of pollution have been examined and confirmed to meet applicable standards by the appropriate administrative department of environmental protection that examined and approved the environmental impact statement. Installations for the prevention and control of pollution shall not be dismantled or left idle without authorization. Where it is absolutely necessary to dismantle any such installation or leave it idle, prior approval shall be obtained from the competent local administrative department of environmental protection. The Environmental Protection Law makes it clear that the legal liabilities of any violation of said law include warning, fine, rectification within a time limit, compulsory cease operation, compulsory reinstallation of dismantled installations of the prevention and control of pollution or compulsory reinstallation of those left idle, compulsory shutout or closedown, or even criminal punishment.

Regulations on Environment Impact Assessment

Pursuant to the Law of the People's Republic of China on Environment Impact Assessment (2018 Revision) (the "**Environment Impact Assessment Law**", 《中華人民共和國環境影響評價法》(2018修正)), which was issued on October 28, 2002, amended on July 2, 2016, and was last amended and became effective on December 29, 2018, the State implements a classification-based management on the environmental impact assessment (the "**EIA**") of construction projects according to the impact of the construction projects on the environment. Construction units shall prepare Environmental Impact Report (the "**EIR**") or Environmental Impact Statement (the "**EIS**") or fill out the Environmental Impact Registration Form (the "**EIRF**") (hereinafter collectively referred to as the "**EIA documents**") according to the following rules:

1. For projects with potentially serious environmental impacts, an EIR shall be prepared to provide a comprehensive assessment of their environmental impacts;

2. For projects with potentially mild environmental impacts, an EIS shall be prepared to provide an analysis or specialized assessment of their environmental impacts; and

3. For projects with very small environmental impacts so that an EIA is not required, an Environmental Impact Registration Form shall be filled out.

The EIR or EIS of a construction project shall be submitted by the construction unit in accordance with the regulations of the State Council to the administrative department for environmental protection with powers to approve the project for review and approval. The State shall implement a record-filing-based management on EIRF.

According to the Administrative Regulations on the Environmental Protection of Construction Projects (2017 Revision) (《建設項目環境保護管理條例》(2017修訂)), became effective on November 29, 1998, and amended on July 16, 2017 and became effective on October 1, 2017, after the construction of a construction project for which an environmental impact report or environmental impact statement is prepared is completed, the construction unit shall make an acceptance check of the matching environmental protection facilities and prepare an acceptance report according to the standards and procedures stipulated by the competent administrative department of environmental protection under the State Council. A construction unit shall be punished in accordance with the Environment Impact Assessment Law if it: 1. starts construction without authorization before submitting the environmental impact report or environmental impact statement of the construction project for approval or re-examination in accordance with the law; 2. starts construction without authorization before the environmental impact report or environmental impact statement of the construction projects is approved or approved after re-examination; or 3. fails to file the environmental impact registration form of the construction project for record in accordance with the law.

Regulations on Stores

Regulations on Property Leasement

Pursuant to the Administrative Measures for Commodity Housing Tenancy (《商品房屋租賃管理辦法》) issued by the Ministry of Housing and Urban-Rural Development (住房和城鄉建設部) on December 1, 2010 and came into effect on February 1, 2011, the parties concerned to a housing tenancy shall go through the housing tenancy registration formalities with the competent construction (real-estate) departments of the municipalities directly under the Central Government, cities and counties where the housing is located within 30 days after the housing tenancy contract is signed. Where the content of the housing tenancy registration is altered, or the housing tenancy contract is renewed or terminated, the parties concerned shall, within 30 days, go through housing tenancy registration amendment, renewal or termination formalities at the department which originally registered the housing tenancy. The competent construction (real estate) departments of the people's governments of the municipalities directly under the central government of the PRC, cities and counties shall urge those who do not register on time hereof to make corrections within a specified time limit, and shall impose a fine below RMB1,000 on individuals who fail to make corrections within the specified time limit, and a fine between RMB1,000 and RMB10,000 on institutions which fail to make corrections within the specified time limit.

Regulations on Fire Prevention

The Fire Prevention Law of the PRC (2021 Amendment) (the "**PRC Fire Prevention Law**", 《中華人民共和國消防法》(2021修正)) was promulgated by the SCNPC on April 29, 1998 and subsequently amended on October 28, 2008, and April 23, 2019 and was last amended and became effective on April 29, 2021. According to the PRC Fire Prevention Law and other relevant laws and regulations of the PRC, the Emergency Administrative Department of the local people's government at or above the county level shall supervise and administer the fire protection work within its administrative territory, and shall be implemented by the fire protection division of the people's government at the same level. For public assembly venue, the construction entity or entity using such venue shall, prior to use and operation of any business thereof, apply for a safety inspection on fire prevention with the relevant fire prevention department under the local government at or above the county level where the venue is located, and such place cannot be put into use and operation if it fails to pass the safety inspection on fire prevention.

When conducting large-scale public activities, the host entity shall file an application for a safety permit with the relevant public security authority in accordance with the law, formulate fire fighting and emergency evacuation plans, clarify the division of fire safety and protection responsibilities and work, designate personnel to manage fire safety and protection, maintain fire fighting facilities and equipment to ensure they remain complete, in good condition and functional, and ensure that fire escapes and exits, fire escape signs, emergency lighting, and passageways for fire engines conform to technical standards and administrative provisions for fire protection.

Regulations on Franchised Commercial Operation

Franchised operation is subject to the supervision and administration of the MOFCOM and its local competent commercial departments. These activities are currently regulated by the Regulations on the Administration of Commercial Franchised Operation (《商業特許經營管理條例》) promulgated by the State Council on February 6, 2007 and effective on May 1, 2007, which was supplemented by the Administrative Measures for the Record-filing of Commercial Franchises (《商業特許經營備案管理辦法》(2023修正)) promulgated by the MOFCOM on December 29, 2023 and effective on the same date, the Administrative Measures for the Information Disclosure of Commercial Franchise (《商業特許經營信息披露管理辦法》) promulgated by the MOFCOM on February 23, 2012 and effective on April 1, 2012 and the Franchise Administration for Standard Retail Industry (《商業特許經營管理規範 零售業》) promulgated on September 19, 2012 and effective on December 1, 2012.

According to the above-mentioned applicable regulations, franchisers may engage in franchised operation activities on conditions that they shall have a mature operation model and be capable of providing continuous operation guidance, technical support, training services and other service support for franchisees, as well as owning at least two direct-sale stores in China with the operation period being more than one year. Where franchisers fail to conduct franchised activities in accordance with the above provisions, punishment may be imposed, such as confiscating the illegal proceeds and imposing a fine of above RMB100,000 but less than RMB500,000, and an announcement will be made by the MOFCOM or the local competent department of commerce. The franchise contract shall specify certain necessary provisions concerning terms, the right to terminate and payment.

Franchisers shall submit the business license, a draft of the franchise contract and other documents to the provincial competent commercial department where they are registered within 15 days from the date of the initial signing of the franchise contract with franchisees within China. Where a franchiser engages in franchised activities within the scope of two or more provincial areas, it shall file with the MOFCOM. Filing shall be performed by the franchisers complying with the above applicable regulations through the information management system for commerce franchises established by the MOFCOM. In addition, franchisers shall file with the commercial department concerning the execution, cancellation, termination and renewal of franchise agreements in the preceding year before March 31 of every year.

In case of any changes to franchisers' filing information, such changes shall also be filed with the relevant commercial department after occurrence. Where franchisers fail to file in accordance with such regulations, relevant commercial departments may order the franchiser to file within a stipulated period and impose a fine of more than RMB10,000 but less than RMB50,000. Failure to file within the stipulated period may render a fine of more than RMB50,000 but less than RMB100,000, and a public announcement.

REGULATIONS ON PRODUCT

Regulations on Blind Boxes

The Compliance Guidelines for Blind Box Business Activities (for Trial Implementation) (the "**Blind Boxes Guidelines**", 《盲盒經營行為規範指引(試行)》) was promulgated and effective by the State Administration for Market Regulation (the "**SAMR**") on June 8, 2023. According to the Blind Boxes Guidelines, blind box business operators shall, according to the production and management costs and the market supply and demand, reasonably determine the price of blind boxes. When providing goods or services, a blind box business operator shall clearly mark the prices, and shall not collect any unmarked fees, sell goods at a price higher than the marked price, or commit such illegal acts as failing to clearly mark the prices in accordance with the provisions, driving up prices, or committing price frauds.

Blind box business operators shall publicize the key information such as the name, category and pattern of commodities, random selection rules, distribution of commodities, the quantity of limited commodities to be put into operation, probability of getting a surprise item and value range of commodities in an obvious way so as to ensure that consumers are informed of such information prior to purchase.

Blind box business operators shall not change the random selection result through background manipulation, adjust the probability of getting a surprise item at will or take any other means to induce consumption in a disguised form, nor shall they refuse or deliberately delay the delivery of blind boxes by means of discount, repurchase and exchange. No empty boxes are allowed.

Blind box business operators are encouraged to establish a minimum guarantee mechanism and guide rational consumption by setting the random selection time, the upper limit of the amount of randomly selected goods and the upper limit of the times of random selection and other means. Blind box business operators are encouraged to consciously promise not to store up goods, not to hype or not to directly enter the secondary market and to consciously accept social supervision.

Blind box business operators shall not sell commodities in the form of blind boxes to the minors under the age of 8. Where commodities in the form of blind boxes are sold to the minors aged 8 or above, the consent of the relevant guardians shall be obtained in accordance with the law.

Regulations on Stationery

Stationery products are currently regulated by the Request in Common Use of Security for Student's Articles (《學生用品的安全通用要求》) promulgated on July 23, 2020 and effective on February 1, 2022, the Maximum Limits for Soluble Elements Content of Pencil Coating (《鉛筆塗層中可溶性元素最大限量》) promulgated on June 26, 2007 and effective on January 1, 2008 and the Technical Requirement for Environmental Labeling Products Culture Paper (《環境標誌產品技術要求 文化用紙》) promulgated on December 11, 2017 and effective on March 1, 2018.

REGULATIONS ON INTELLECTUAL PROPERTY

Regulations on Copyright and Computer Software

China is a signatory to some major international conventions on protection of copyright and became a member of the Berne Convention for the Protection of Literary and Artistic Works in October 1992, the Universal Copyright Convention in October 1992, and the Agreement on Trade-Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001. The Copyright Law of the People's Republic of China (2020 Amendment) (the "**PRC Copyright Law**", 《中華人民共和國著作權法》(2020修正)), which was promulgated by the SCNPC on September 7, 1990, and amended on October 27, 2001 and February 26, 2010 and last amended on November 11, 2020, and became effective on June 1, 2021, provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which shall refer to original intellectual achievements in the fields of literature, art and science which can be expressed in a certain form. The purpose of the PRC Copyright Law is to encourage the creation and dissemination of works which is beneficial to the construction of socialist spiritual civilization and material civilization and promote the development and prosperity of Chinese culture. Unless otherwise stipulated in the PRC Copyright Law, anyone that wishes to use another's work shall conclude a licensing contract with the copyright owner of the work. A licensing contract shall include: the type(s) of right(s) being licensed; whether the license is exclusive or non-exclusive; the geographic scope and term of the license; the amount and method of remuneration; liability for breach of contract; and other details which the parties consider necessary.

The Computer Software Copyright Registration Measures (the "**Software Copyright Measures**", 《計算機軟件著作權登記辦法》), promulgated by the National Copyright Administration (國家版權局) and became effective on February 20, 2002, regulate registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The National Copyright Administration shall be the competent governmental authority for the nationwide administration of software copyright registration and the Copyright Protection Center of China (the "**CPCC**", 中國版權保護中心) is designated as the software registration authority. The CPCC shall grant registration certificates to the Computer Software Copyrights applicants which conforms to the provisions of both the Software Copyright Measures and the Computer Software Protection Regulations (2013 Revision) (《計算機軟件保護條例》(2013修訂)).

Provisions of the Supreme People's Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks (《最高人民法院關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定》), which was promulgated by the SPC on December 17, 2012, and amended on December 29, 2020, and became effective on January 1, 2021, provide that any network user or network service supplier provides without permission works, performance, sound or visual recordings to which the right holder has information network transmission right, the people's courts shall hold that said user or service supplier has infringed upon the information network transmission right, unless otherwise provided for by laws and administrative regulations.

Regulations on Trademark

Trademarks are protected by the Trademark Law of the People's Republic of China (2019 Amendment) (the "**PRC Trademark Law**", 《中華人民共和國商標法》(2019修正)) which was promulgated on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001, and August 30, 2013, respectively, and was last amended on April 23, 2019, and came into force on November 1, 2019, as well as the Implementation Regulation of the Trademark Law of the People's Republic of China (2014 Revision) (《中華人民共和國商標法實施條例》(2014修訂)) adopted by the State Council on August 3, 2002, subsequently amended on April 29, 2014, and became effective on May 1, 2014. In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office (商標局) under the National Intellectual Property Administration (國家知識產權局) handles trademark registrations and grants a term of ten-year from the date of registration to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within twelve months prior to the expiration of the term. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license agreements must be filed with the Trademark Office for record. The licensor shall supervise the quality of the commodities on which the trademark is used and the licensee shall guarantee the quality of such commodities, the licensee shall display the name of the licensor and the place of origin on the commodities that bear the licensed registered trademark. As to trademarks, the PRC Trademark Law has adopted a "first come, first file" principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a "sufficient degree of reputation" through such party's use.

Regulations on Patent

According to the Patent Law of the People's Republic of China (2020 Amendment) (the "**PRC Patent Law**", 《中華人民共和國專利法》(2020修正)), promulgated by the SCNPC on March 12, 1984, and subsequently amended on August 25, 2000 and December 27, 2008, and was last amended on October 17, 2020 and became effective on June 1, 2021, and the Rules for the Implementation of the Patent Law of the PRC(2010 Revision) (《中華人民共和國專利法實施細則》(2023修訂)) promulgated by the State Council on June 15, 2001, and subsequently amended on December 28, 2002 and January 9, 2010, and last amended on December 11, 2023 and will become effective on January 20, 2024, the State Council is responsible for administration of patent-related work nationwide. The Patent Administration Departments of Province or Autonomous Regions or Municipal Governments are responsible for administering patents within their respective jurisdictions. The PRC Patent Law and its implementation rules divide patents into three types, "invention", "utility model" and "design". Invention patents are valid for twenty years, utility model patents are valid for ten years and design patents are valid for fifteen years, from the date of application. The PRC patent system adopts a "first come, first file" principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

Regulations on Domain Name

The Ministry of Industry and Information Technology (the "**MIIT**", 工業和信息化部) promulgated the Administrative Measures on Internet Domain Names (the "**Domain Name Measures**", 《互聯網域名管理辦法》) on August 24, 2017, which became effective on November 1, 2017. According to the Domain Name Measures, the corresponding permit issued by the MIIT or the Communications Administration (通信管理局) of the province, autonomous region or municipality directly under the Central Government shall be obtained. The domain name services follow a "first apply, first register" principle. The applicants who are applying for registering a domain name are requested to provide real, accurate and complete information about the domain name holder's identity for the registration purpose. Any party that engages in internet information services shall use its domain name in compliance with laws and regulations and in line with relevant provisions of the Telecommunications Authority, but shall not use its domain name to commit any violation.

Regulations on Trade Secrets

The PRC Anti-Unfair Competition Law also set up regulations to protect Trade Secrets. Business Operators shall not engage in any infringements of trade secrets, such as obtaining an obligee's trade secrets by theft, bribery, fraud, intimidation, electronic intrusion or other improper means; disclosing, using, or allowing others to use an obligee's trade secrets obtained by the means mentioned in the preceding paragraph; disclosing, using or allowing others to use an obligee's trade secrets in violation of confidentiality obligations or the obligee's requirements on keeping such trade secrets confidential; or obtaining, disclosing, using or allowing any other party to use an obligee's trade secrets by instigating, tempting or helping any other party to violate the confidentiality obligations or the obligee's requirements on keeping such trade secrets confidential. Where a Business Operator infringes any trade secret, the supervision and inspection authority shall order it to cease the illegal act, confiscate the illegal gains and impose on it a fine of between RMB100,000 and RMB1 million; where the circumstance is serious, the fine shall be between RMB500,000 and RMB5 million.

REGULATIONS ON ONLINE BUSINESS

Regulations on Online Trading and E-Commerce

The SCNPC enacted the E-Commerce Law of the People's Republic of China (the "**PRC E-Commerce Law**", 《中華人民共和國電子商務法》) on August 31, 2018, which became effective on January 1, 2019. Under the PRC E-Commerce Law, e-commerce refers to operating activities of selling goods or providing services through the internet or other information networks. The PRC E-Commerce Law generally applies to: (i) Platform Operators, which refer to legal persons or unincorporated organizations that provide network places of business, transaction matching, information release and other services to enable the transaction parties to carry out independent transaction activities; (ii) Operators on the platform, which refer to e-commerce Operators that sell goods or provide services to customers through e-commerce platforms; and (iii) other e-commerce Operators that sell goods or provide services through self-established websites or other network services. The PRC E-commerce Law also provides rules in relation to e-commerce contracts, dispute settlements, e-commerce development as well as legal liabilities involved in e-commerce. An e-commerce Business Operator shall make market participant registration and obtain relevant administrative licensing according to the law.

In accordance with the Measures for the Supervision and Administration of Online Transactions (the "**Measures for Online Transaction**", 《網絡交易監督管理辦法》), which was promulgated by the SAMR on March 15, 2021, which came into effect on May 1, 2021, any business activity of selling goods or providing services through the Internet within the PRC shall abide by the laws and regulations of the PRC and the provisions of the Measures for Online Transaction. Measures for Online Transaction reinforce the operation requirements as provided under the PRC E-Commerce Law and the principles of legality, rationality and necessity in the collection and use of the users' information and disclosure of the rules, purposes, methods and scopes of collection and use of user information specified in the Cyber Security Law of the PRC. Measures also provide that the business operator through online platform (i) shall not use false transactions, fabricated user review to conduct false or misleading business promotion, so as to defraud or mislead consumers; (ii) shall not eliminate or restrict competition, damage or ruin the competitor's reputation; (iii) shall not force consumers to agree with the collection and use of their personal information that is not directly related to such operator's business activities by means of general authorization, default authorization, bundling with other authorization, termination of installation and use.

Regulations on Mobile Internet Applications Information Services

In addition to the Telecommunications Regulations and other regulations above, mobile internet applications (the "**APPs**") as well as the internet application store are specially regulated by the Administrative Provisions on Mobile Internet Applications Information Services (2022 Amendment) (the "**APP Provisions**", 《移動互聯網應用程序信息服務管理規定》(2022修正)), which were promulgated by the Cyberspace Administration of China (the "**CAC**", 國家互聯網信息辦公室) on June 28, 2016, and last amended in June 14, 2022, and became effective on August 1, 2022. APP Provisions regulates that, the APP information service providers shall satisfy relevant qualifications required by laws and regulations, strictly carry out the information security management responsibilities and fulfill their obligations in various aspects relating to the real-name system, protection of users' information and the examination and management of information content.

Furthermore, on December 16, 2016, the MIIT promulgated the Interim Measures on the Administration of Pre-Installation and Distribution of Applications for Mobile Smart Terminals (the "**Mobile Application Interim Measures**", 《移動智能終端應用軟件預置和分發管理暫行規定》), which took effect on July 1, 2017. The Mobile Application Interim Measures requires, among others, that internet information service providers shall ensure that a mobile application, as well as its ancillary resource files, configuration files and user data can be uninstalled by a user on a convenient basis, unless it is a basic function software, which refers to a software that supports the normal functioning of hardware and operating system of a mobile smart device.

Regulations on Cybersecurity, Privacy and Data Protection

The Cybersecurity Law of the People's Republic of China (the "**Cybersecurity Law**",《中華人民共和國網絡安全法》), which was promulgated on November 7, 2016 and came into effect on June 1, 2017, requires that when constructing and operating a network, or providing services through a network, technical measures and other necessary measures shall be taken in accordance with laws, administrative regulations and the compulsory requirements set forth in national standards to ensure the secure and stable operation of the network, to effectively cope with cybersecurity events, to prevent criminal activities committed on the network, and to protect the integrity, confidentiality and availability of network data. The Cybersecurity Law emphasizes that any individuals and organizations that use networks must not endanger network security or use networks to engage in activities endangering national security, economic order and social order or infringing the reputation, privacy, intellectual property rights and other lawful rights and interests of others. The Cybersecurity Law also reiterates certain basic principles and requirements on personal information protection previously specified in other existing laws and regulations. Any violation of the provisions and requirements under the Cybersecurity Law may subject an internet service provider to rectifications, warnings, fines, confiscation of illegal gains, revocation of business permit, cancellation of business license, closedown of websites or even criminal liabilities.

The Data Security Law of the People's Republic of China (the "**Data Security Law**",《中華人民共和國數據安全法》) was passed on June 10, 2021 and came into effect on September 1, 2021. The Data Security Law requires a data processor to establish and improve a whole-process data security management system, organize data security education and training, and take corresponding technical measures and other necessary measures to safeguard data security. In conducting data processing activities using the Internet or any other information networks, a data processor shall perform the above data security protection obligations on the basis of the hierarchical cybersecurity protection system. Any violation of the provisions and requirements under the Data Security Law may subject a data processor to rectifications, warnings, fines, suspension of the related business, revocation of business permit or even criminal liabilities.

The Personal Information Protection Law of the PRC (the "***Personal Information Protection Law***",《中華人民共和國個人信息保護法》) was promulgated on August 20, 2021 and came into effect on November 1, 2021. Instead of relying solely on "notification and consent" as established in the Cybersecurity Law, the Personal Information Protection Law reiterates the circumstances under which a personal information processor could process personal information and the requirements for such circumstances, such as when (i) the individual's consent has been obtained; (ii) the processing is necessary for the conclusion or performance of a contract to which the individual is a party; (iii) the processing is necessary to fulfill statutory duties and statutory obligations; (iv) the processing is necessary to respond to public health emergencies or protect a natural person's life, health and property safety under emergency circumstances; (v) the personal information that has been made public is processed within a reasonable scope in accordance with this Law; (vi) personal information is processed within a reasonable scope to conduct news reporting, public opinion-based supervision and other activities in the public interest; or (vii) under any other circumstance as provided by any law or regulation. It also stipulates the obligations of a personal information processor. Any violation of the provisions and requirements under the Personal Information Protection Law may subject a personal information processor to rectifications, warnings, fines, suspension of the related business, revocation of licenses, being entered into the relevant credit record or even criminal liabilities.

On December 28, 2021, thirteen PRC governmental and regulatory agencies, including the CAC, promulgated the Measures for Cybersecurity Review (the "**Revised Cybersecurity Review Measures**",《網絡安全審查辦法》), which was published on January 4, 2022, and came into effect on February 15, 2022. The Revised Cybersecurity Review Measures specifies that the procurement of network products and services by CII Operators and the activities of data process carried out by online platform operators, that raise or may raise "national security" concerns are subject to strict cybersecurity review by the Office of Cybersecurity Review established by the CAC. Before the CII Operator procures network products and services, it should assess the potential risk of national security that may be caused by the use of such products and services. If such use of products and services may give raise to national security concerns, it should apply for a cybersecurity review by the Cybersecurity Review Office and a report of analysis of the potential effect on national security shall be submitted when the application is made. In addition, an online platform operator that possess the personal data of over one million users must apply for cybersecurity review by the Cybersecurity Review Office, if it plans on listing companies in foreign countries. The Cybersecurity Review Office may voluntarily conduct a cybersecurity review if any network products and services, activities of data process or listing of companies overseas affects or may affect national security. Pursuant to the Revised Cybersecurity Review Measures, any violation shall be punished in accordance with the Cybersecurity Law and the Data Security Law, the sanctions under which include, among others, government enforcement actions and investigations, fines, penalties and suspension of our non-compliant operations.

In addition, on November 14, 2021, the Administration Regulations on Cyber Data Security (Draft for Comments) (the "***Cyber Data Security Draft***", 《網絡數據安全管理條例(徵求意見稿)》) was proposed by the CAC for public comments until December 13, 2021. The Cyber Data Security Draft reiterates that data processors which process the personal information of one million individuals or more must apply for a cybersecurity review if they plan the listing of companies in foreign countries, and the Cyber Data Security Draft further requires the data processors that carry out the following activities to apply for cybersecurity review in accordance with the relevant laws and regulations: (i) the merger, reorganization or division of Internet platform operators that have gathered a large number of data resources related to national security, economic development and public interests that affects or may affect national security; (ii) the listing of the data processor in Hong Kong affects or may affect the national security; and (iii) other data processing activities that affect or may affect national security. In addition, the Cyber Data Security Draft also regulates other specific requirements in respect of the data processing activities conducted by data processors in the view of personal data protection, important data safety, data cross-broader safety management and obligations of Internet platform operators.

Pursuant to the Cyber Data Security Draft, data processors processing personal information of one million individuals or more shall also comply with the provisions for processing of important data. For the processing of important data, specific requirements shall be complied with, for example, processors of important data shall specify the responsible person of data safety, establish a data safety management department and file to the cyberspace administration at the districted city level within 15 business days after the identification of their important data. The processors of important data or data processors who are listed overseas shall carry out data security assessments by themselves or by entrusting data security service agencies every year, and submit the previous year's data security assessment report to the cyberspace administration at the districted city level before January 31 of each year. When providing overseas data collected and generated within the PRC, if such data includes important data, or if the data processor is a CII Operator or processes personal information of one million individuals or more, the data processors shall go through the security assessment of data cross-border transfer organized by the national cyberspace administration. Any failure to comply with such requirements may subject us to, among others, suspension of services, fines, revoking relevant business permits or business licenses and penalties.

On January 23, 2019, the CAC, the MIIT, the Ministry of Public Security, and the SAMR jointly issued the Notice on Special Governance of Illegal Collection and Use of Personal Information via Apps (《關於開展App違法違規收集使用個人信息專項治理的公告》), which restates the requirement of legal collection and use of personal information, encourages App operators to conduct security certifications, and encourages search engines and App stores to clearly mark and recommend those certified Apps.

On November 28, 2019, the CAC, MIIT, the Ministry of Public Security and SAMR jointly issued the Measures to Identify Illegal Collection and Usage of Personal Information by Apps (《App違法違規收集使用個人信息行為認定方法》), which came into effect on the same day and lists six types of illegal collection and usage of personal information, including "non-disclosure of collection and use rules," "failure to expressly state the purpose, method and scope of collecting and using personal information," "collection or use of personal information without the consent of users," "collection of personal information unrelated to the services they provide in violation of the principle of necessity," "provision of personal information without consent," "failure to provide the function of deleting or correcting personal information in accordance with the law" and "failure to disclose the information such as ways of filing complaints and whistleblowing reports."

On July 22, 2020, the MIIT issued the Notice of Ministry of Industry and Information Technology on Carrying out Special Rectification Actions in Depth against the Infringement upon Users' Rights and Interests by Apps (《工業和信息化部關於開展縱深推進APP侵害用戶權益專項整治行動的通知》), which lists four types of illegal collection and usage of personal information, including "illegally processing personal information of users by the App and the SDK," "Setting up obstacles and frequently harassing users," "cheating and misleading users" and "inadequate implementation of application distribution platforms' responsibilities."

On August 22, 2019, the CAC issued the Provisions on the Cyber Protection of Children's Personal Information (《兒童個人信息網絡保護規定》), which became effective on October 1, 2019 and applies to the collection, storage, use, transfer and disclosure of the personal information of the minors under the age of 14, i.e. the Children, via the Internet. Where a personal information processor collects or uses a child's personal information, it shall formulate special personal information processing rules and obtain the consent of the child's parents or other guardians.

REGULATIONS ON FOREIGN INVESTMENT

Restrictions on Foreign Investment

Retail Industry

Pursuant to the Catalogue of Industries for Encouraged Foreign Investment (2022 Edition) (the "**Catalogue**",《鼓勵外商投資產業目錄》(2022版)), and the Special Administrative Measures for Access of Foreign Investment (Negative List) (2021 Edition) (the "**Negative List**",《外商投資准入特別管理措施(負面清單) (2021年版)》), both promulgated jointly by the MOFCOM and the National Development and Reform Commission (the "**NDRC**", 國家發展和改革委員會) and became effective on January 1, 2023, and January 1, 2022, respectively, design, production and retail of pan-entertainment are permitted on foreign investment.

The PRC Foreign Investment Law

On March 15, 2019, the SCNPC approved the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》), and on December 26, 2019, the State Council promulgated the Implementing Rules of the Foreign Investment Law (《中華人民共和國外商投資法實施條例》), or the Implementing Rules, to further clarify and elaborate the relevant provisions of the Foreign Investment Law. The Foreign Investment Law and the Implementing Rules both took effect on January 1, 2020 and replaced three previous major laws on foreign investments in China, namely, the Sino-foreign Equity Joint Venture Law (《中華人民共和國中外合資經營企業法》), the Sino-foreign Cooperative Joint Venture Law (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法》), together with their respective implementing rules. Pursuant to the Foreign Investment Law, "foreign investments" refer to investment activities conducted by foreign investors (including foreign natural persons, foreign enterprises or other foreign organizations) directly or indirectly in the PRC, which include any of the following circumstances: (i) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of enterprises within the PRC, (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors, and (iv) investment of other methods as specified in laws, administrative regulations, or as stipulated by the State Council. The Implementing Rules introduce a see-through principle and further provide that foreign-invested enterprises that invest in the PRC shall also be governed by the Foreign Investment Law and the Implementing Rules.

Regulations on M&A and Overseas Listings

Pursuant to the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (2009 Revision) (the "**M&A Rules**", 《關於外國投資者併購境內企業的規定》(2009修訂)), which was promulgated by the MOFCOM on August 8, 2006 and became effective on September 8, 2006, and was last amended and became effective on June 22, 2009, Foreign Investors must comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company and thus changing the nature of the domestic company into a foreign invested enterprise; or when the foreign investors establish a foreign invested enterprise in China, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign invested enterprise by injecting such assets and operate the assets. The M&A Rules requires that if an overseas company established or controlled by PRC companies or individuals intends to acquire equity interests or assets of any other PRC domestic company affiliated with such PRC companies or individuals, such acquisition must be submitted to MOFCOM for approval. The M&A Rules also requires companies with special purpose of overseas listing through acquisitions of PRC domestic companies, which are controlled directly or indirectly by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing and trading of such securities on an overseas stock exchange.

The Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies and five supporting guidelines (《境內企業境外發行證券和上市管理試行辦法》及五項配套指引) promulgated by the CSRC on February 17, 2023 and became effective on March 31, 2023. The Overseas Listing Trial Measures require, among others, that PRC domestic companies that seek to initially offer and list securities in overseas markets, either directly or indirectly, file the required documents with the CSRC after its application for overseas listing is submitted.

On February 24, 2023, the CSRC released the Provisions on Strengthening Confidentiality and Archives Administration in Respect of Overseas Issuance and Listing of Securities by Domestic Enterprises (the "**Confidentiality Provisions**", 《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定》), which became effective on March 31, 2023. Pursuant to the Confidentiality Provisions, domestic joint-stock enterprises listed in overseas markets via direct offering and domestic operational entities of enterprises listed in overseas markets via indirect offering must obtain approval and complete filing or other requirements before they publicly disclose any documents and materials that contain state secrets or government work secrets or that, if divulged, will jeopardize China's national security or public interest, or before they provide such documents or materials to entities or individuals such as securities companies, securities service providers and overseas regulators.

Regulations on Foreign Exchange

According to the Foreign Currency Administration Rules of the People's Republic of China (2008 Revision) (《中華人民共和國外匯管理條例》(2008修訂) promulgated by the State Council on January 29, 1996 and last amended and became effective on August 5, 2008 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (《結匯、售匯及付匯管理規定》), which was promulgated by the People's Bank of China on June 20, 1996 and became effective on July 1, 1996, RMB is convertible into other currencies through their foreign exchange bank account for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of RMB into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the State Administration of Foreign Exchange (the "**SAFE**", 國家外匯管理局) or its local counterparts. For foreign exchange proceeds under the capital accounts, approval from the SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of China. Generally, foreign invested enterprises may convert RMB into foreign currencies and remit them out of the PRC without the prior approval of the SAFE under the two following circumstances: (a) when an enterprise needs to settle current account items in foreign currencies; and (b) when an enterprise needs to distribute dividends to its foreign shareholders.

Pursuant to the Notice of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (2015 Revision) (the "**SAFE Circular 59**", 《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》(2015修訂)) which was promulgated by the SAFE on November 19, 2012, and became effective on December 17, 2012 and was last amended and became effective on May 4, 2015, the approval is not required for the opening of an account entry in foreign exchange accounts and domestic transfer of the foreign exchange under direct investment. The SAFE Circular 59 also simplifies the procedure of the capital verification and confirmation formalities for foreign invested enterprises and the procedure of foreign capital and foreign exchange registration formalities for the foreign investors to acquire the equity interests of Chinese party, and further improves the administration on exchange settlement of foreign exchange capital of foreign invested enterprises.

On February 13, 2015, the SAFE promulgated the Notice on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (the "**SAFE Circular 13**", 《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), effective from June 1, 2015 and further amended on December 30, 2019, which cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. In addition, a market player involved may elect a bank at the place of its incorporation for direct investment foreign exchange registration. Upon registration, it may open an account, transfer funds and other businesses for subsequent direct investment, including inward or outward remittances of profits and bonus.

Pursuant to the Notice of the SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise (the "**SAFE Circular 19**", 《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), promulgated by the SAFE on March 30, 2015 and became effective on June 1, 2015, and the Notice of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (the "**SAFE Circular 16**", 《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), promulgated by the SAFE, became effective on June 9, 2016 and further amended on December 4, 2023, the RMB fund from the settlement of foreign currency capital of a foreign-invested enterprise shall be used within the business scope as approved by relevant governmental authorities or the authorized commercial banks. Except foreign-invested real estate enterprises, no foreign invested enterprise shall use the RMB fund from the settlement of foreign currency capital to purchase domestic real estate for any purpose other than its own use. The RMB fund from the settlement of foreign currency capital shall not be used for any securities investment unless otherwise specifically provided for, and shall not be directly or indirectly used for granting the entrust loans in RMB (unless used for purposes within the scope of business), repaying the inter-enterprise borrowings (including advances by the third party) or the bank loans in RMB that have been sub-lent to the third party. Enterprises registered in China may also convert their foreign debts from foreign currency into RMB on self-discretionary basis. The SAFE Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in China. The SAFE Circular 16 reiterates the principle that RMB converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within China unless otherwise specifically provided. In addition, the converted RMB may not be used to make loans for related enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

Pursuant to the Circular on Further Promoting the Facilitation of Cross-border Trade and Investment (the "**SAFE Circular 28**"《關於進一步促進跨境貿易投資便利化的通知》), which was promulgated by the SAFE, became effective on October 23, 2019 and further amended on December 4, 2023, on the basis that investing foreign-funded enterprises (including foreign-funded companies, foreign-funded venture capital enterprises and foreign-funded equity investment enterprises) may make domestic equity investments with their capital funds in accordance with laws and regulations, non-investing foreign-funded enterprises are permitted to legally make domestic equity investments with their capital funds under the premise that the existing special administrative measures (negative list) for foreign investment access are not violated and domestic investment projects are true and compliant.

Pursuant to the Circular on Optimizing Administration of Foreign Exchange to Support the Development of Foreign-related Business (the "**SAFE Circular 8**"《關於優化外匯管理支持涉外業務發展的通知》) issued by the SAFE on April 10, 2020, under the prerequisite of ensuring true and compliant use of funds and compliance with the prevailing administrative provisions on use of income under the capital account, enterprises which satisfy the criteria are allowed to use income under the capital account, such as capital funds, foreign debt and overseas listing, etc. for domestic payment, without prior provision of proof materials for veracity to the bank for each transaction. Banks shall, with the principle of prudential business development, manage and control the relevant business risks, and conduct ex post random inspection over the payment facilitation business of income under capital accounts according to the relevant requirements.

The Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (the "**SAFE Circular 37**", 《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), which was promulgated by the SAFE on July 4, 2014 and became effective on the same date, provides that registration management for domestic resident's establishment of special purpose vehicle shall be carried out by the SAFE and its branches. In additional to the SAFE Circular 13, a domestic resident shall, before contributing the domestic and overseas lawful assets or interests to a special purpose vehicle, apply to the foreign exchange office or its authorized banks for going through the procedures for foreign exchange registration of overseas investments. A domestic resident contributing domestic lawful assets or interests shall apply to the foreign exchange office or its authorized banks of registration place, or the foreign exchange office or its authorized banks of location of the domestic enterprise's assets or interests for going through the procedures for registration; a domestic resident contributing overseas lawful assets or interests shall apply to the foreign exchange office or banks of registration place, or the foreign exchange office or banks of the location of household registration for going through the procedures for registration.

On December 25, 2006, the People's Bank of China (中國人民銀行) promulgated the Administrative Measures for Individual Foreign Exchange (《個人外匯管理辦法》), which became effective on February 1, 2007. On February 15, 2012, the SAFE issued the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals' Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies (the "**Stock Option Rules**", 《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) which became effective on the date of issuance. Pursuant to the Stock Option Rules, and other applicable rules, PRC residents who are granted shares or stock options by companies listed on overseas stock exchanges according to the stock incentive plans are required to register with SAFE or its local branches, and PRC residents participating in the stock incentive plans of overseas listed companies shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct SAFE registration and other procedures with respect to the stock incentive plans on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests, and fund transfer. In addition, the PRC agents are required to amend SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, or the PRC agents or the overseas entrusted institution or other material changes. The PRC agents shall, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, the PRC agents shall file each quarter the form for record-filing of information of the Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies with SAFE or its local branches.

REGULATIONS ON EMPLOYMENT AND SOCIAL WELFARE

Regulations on Employment

According to the Labor Law of the People's Republic of China (2018 Amendment) (《中華人民共和國勞動法》(2018修正)) promulgated by the SCNPC on July 5, 1994 that became effective on January 1, 1995, and last amended and became effective on December 29, 2018, workers are entitled to fair employment, choice of occupation, labor remuneration, leave, a safe workplace, a sanitation system, social insurance and welfare and certain other rights. The working time for workers may not exceed eight hours per day and no more than 44 hours per week on average. Employers shall establish and improve their work safety and sanitation system, educate employees on safety and sanitation, and provide employees with a working environment that meets the national work safety and sanitation standards. Enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in China. Labor safety and sanitation facilities shall comply with state-fixed standards.

Pursuant to the Labor Contract Law of the People's Republic of China (2012 Amendment) (the "**Labor Contract Law**") (《中華人民共和國勞動合同法》(2012修正)), which was promulgated by the SCNPC on June 29, 2007, amended on December 28, 2012 and became effective on July 1, 2013, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with the laws and regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers in a timely manner.

Pursuant to the Labor Contract Law, a part-time worker shall work for an employer for not more than four hours per day on average and do not exceed 24 hours per week. The hourly rate of a part-time worker shall not be lower than the minimum hourly wage standard stipulated by the local People's Government at the locality of the employer. The settlement and payment cycle for labor remuneration of a part-time worker shall not exceed 15 days. Either of the parties to part-time employment may notify the other party to terminate the employment at any time. Upon the termination of a part-time employment, the employer does not need to pay any economic compensation to the part-time worker. According to Opinions of the Ministry of Labor and Social Security on Certain Issues concerning Part-time Employment (《勞動和社會保障部關於非全日制用工若干問題的意見》) promulgated on May 30, 2003, the employer recruits laborers to engage in part-time work, it shall file with the local labor security administrative department after the employment and the employer is obliged to pay labor injury insurance premium for part-time workers in accordance with relevant state regulations.

According to the Labor Contract Law and the Interim Provisions on Labor (《勞務派遣暫行規定》) promulgated by the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) on January 24, 2014 and implemented on March 1, 2014, the employer shall employ dispatched staff for temporary, auxiliary, or substituting positions only and the number of dispatch workers used by an employer shall not exceed 10% of the total number of its employees, although a transitional period of two years is granted for dispatch already existing before the Interim Provisions became effective. Where the number of dispatched labors used by an enterprise prior to the implementation of the Interim Provisions exceeds 10% of its total number of workers, the enterprise shall make a scheme for the adjustment of such labor using and reduce the said percentage to the required proportion and submit the scheme to the local administrative department of human resources and social security for recordation. The employer shall not use any additional dispatched laborers until it reduces the number of dispatched laborers used by it prior to the implementation hereof to the required proportion.

The Employment Promotion Law of the People's Republic of China (2015 Amendment) (《中華人民共和國就業促進法》(2015修正)), which was promulgated by the SCNPC on August 30, 2007, amended and became effective on April 24, 2015, requires that individuals have equal employment opportunities, both in hiring and in employment terms, without discrimination on the basis of ethnicity, race, gender, religious belief, communicable disease or rural residence. Under this law, companies are also required to provide employees with vocational training. Administrative authorities at the county level or above are responsible for implementing policies to promote employment.

Social Insurance and Housing Fund

As required under the Social Insurance Law of the People's Republic of China (2018 Amendment) (《中華人民共和國社會保險法》(2018修正)) adopted by the SCNPC and promulgated on October 28, 2010, implemented on July 1, 2011 and amended and became effective on December 29, 2018, the Regulation of Insurance for Labor Injury (2010 Revision) (《工傷保險條例》(2010修訂)) promulgated by the State Council on April 27, 2003 and implemented on January 1, 2004, and amended on December 20, 2010, and became effective on January 1, 2011, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) promulgated by the Ministry of Labor on December 14, 1994 and became effective on January 1, 1995, the Decision of the State Council on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued and became effective on July 16, 1997, the Decision of the State Councilor the Establishment of the Medical Insurance Program for Urban Workers (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated and became effective on December 14, 1998, the Unemployment Insurance Measures (《失業保險條例》) promulgated by the State Council and became effective on January 22, 1999, enterprises are obliged to provide their employees in China with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. Employers in the PRC must register with the relevant social insurance authority and make contributions to the pension insurance fund, basic medical insurance fund, unemployment insurance fund, maternity insurance fund and work-related injury insurance fund. Pursuant to the Social Insurance Law, pension insurance, basic medical insurance and unemployment insurance contributions must be paid by both employers and employees, while work-related injury insurance and maternity insurance contributions must be paid solely by employers. An employer must declare and make social insurance contributions in full and on time. The social insurance contributions payable by employees must be withheld and paid by employers on behalf of the employees. Employers who fail to register with the social insurance authority may be ordered to rectify the failure within a specific time period. If the employer fails to rectify the failure to register within the specified time period, a fine or one to three times the actual premium may be imposed. If the employer fails to make social insurance contributions on time and in full, the social insurance collecting agency shall order the employer to make up the shortfall within the prescribed time period and impose a late payment fee amounting to 0.05% of the unpaid amount for each day it is overdue. If the non-compliance continues, the employer may be subject to a fine ranging from one to three times the unpaid amount owed to the relevant administrative agency. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

In accordance with the Regulations on the Management of Housing Funds (2019 Revision) (《住房公積金管理條例》(2019修訂)) which was promulgated by the State Council on April 3, 1999, and lastly amended and became effective on March 24, 2019, enterprises must register at the competent managing center for housing funds and upon the examination by such managing center of housing funds, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner.

REGULATIONS ON TAXATIONS

Regulations on Income Tax

On March 16, 2007, the SCNPC promulgated the Law of the People's Republic of China on Enterprise Income Tax (2018 Amendment) (《中華人民共和國企業所得稅法》(2018修正)) which was last amended and became effective on December 29, 2018, and on December 6, 2007, the State Council enacted The Regulations for the Implementation of the Law on Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》) (collectively, the "**EIT Laws**"), which was amended and came into force on April 23, 2019. According to the EIT Laws, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered within China. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside China, but have established institutions or premises in China, or have no such established institutions or premises but have income generated from China. Under the EIT Laws and relevant implementing regulations, resident enterprises are subject to a uniform 25% enterprise income tax rate on their worldwide income. The enterprise income tax rate is reduced to 20% for qualifying small low-profit enterprises. The high-tech enterprises that need full support from the PRC's government will enjoy a 15% preferential tax rate for Enterprise Income Tax.

Pursuant to the Treaty on the Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong (the "**Tax Treaty**", 《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), signed on August 21, 2006 and became effective on January 1, 2007, dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other Contracting State. However, such dividends may also be taxed in the State of which the company paying the dividends is a resident and according to the laws of that State, but if the recipient is the beneficial owner of the dividends the tax so charged shall not exceed: (1) 5% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 25 per cent of the shares of the company paying the dividends; (2) 10% of the gross amount of the dividends in all other cases.

According to Announcement of the State Taxation Administration on Issuing the Measures for Non-resident Taxpayers' Enjoyment of Treaty Benefits (《非居民納稅人享受協定待遇管理辦法》) which were promulgated by the STA on October 14, 2019 and became effective on January 1, 2020, any non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities. The term "non-resident taxpayer" refers to the taxpayer who is a tax resident of another contracting jurisdiction in accordance with the provisions of the article of resident of the tax treaty. The treaties include tax treaties and international transport agreements. "International transport agreements" includes aviation agreements, maritime agreements, road transport agreements, motor transport agreements, and tax agreements or exchanged letters for mutual exemption of taxation on international transport income signed by the Government of the PRC and other agreements on international transport.

However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (the "**Notice No. 81**", 《關於執行稅收協定股息條款有關問題的通知》) issued by the SAT and became effective on February 20, 2009, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment.

Regulations on Value-added Tax

The Provisional Regulations of the People's Republic of China on Value-added Tax (2017 Revision) (《中華人民共和國增值稅暫行條例》(2017修訂)) were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994, which were last amended and became effective on November 19, 2017. The Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax (2011 Revision) (《中華人民共和國增值稅暫行條例實施細則》(2011修訂)) (collectively, the "**VAT Laws**") were promulgated by the Ministry of Finance (財政部) and the SAT and became effective on January 1, 2009 which were amended on October 28, 2011 and came into effect on November 1, 2011. According to the VAT Laws, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, the sale of services, intangible assets or real property in China, and the importation of goods within the territory of the PRC must pay value-added tax. For general VAT taxpayers selling goods, labor services or tangible personal property leasing services or importing goods other than those specifically listed in the VAT Laws, the value-added tax rate is 17%.

Pursuant to the Announcement on Relevant Policies for Deepening the VAT Reform (《關於深化增值稅改革有關政策的公告》) that was promulgated by the Ministry of Finance, the SAT and the General Administration of Customs of the PRC on March 20, 2019 and which came into effect on April 1, 2019, for taxpayers engaging in taxable sales or import of goods, the previously applicable VAT rates of 16% and 10% are adjusted to 13% and 9%, respectively.

Regulations on Urban Maintenance and Construction Tax and Education Surtax

Pursuant to the Notice of the State Council on Extending the Urban Maintenance and Construction Tax and Educational Surcharges from Chinese to Foreign-funded Enterprises and Citizens (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》) promulgated by the State Council on October 18, 2010 and became effective on December 1, 2010, the Urban Maintenance and Construction Tax Law of the People's Republic of China (《中華人民共和國城市維護建設稅法》 promulgated by the SCNPC on August 11, 2020 and became effective on September 1, 2021, and the Interim Provisions on the Collection of Educational Surcharges (2011 Revision) (《徵收教育費附加的暫行規定》(2011修訂)) promulgated by the State Council on April 28, 1986 and last amended and became effective on

January 8, 2011, all organizations and individuals including foreign-invested enterprises, foreign enterprises and individuals of foreign nationalities are liable to consumption tax and value-added tax within the PRC shall also be required to pay urban maintenance and construction tax. Urban maintenance and construction tax shall be based on the amount of consumption tax and value-added tax actually paid by the taxpayer and shall be levied simultaneously. The rate of urban maintenance and construction tax shall be 7% for the taxpayer in the city, and shall be 5% for the taxpayer in the county or town, and shall be 1% for the taxpayer not in the city, county or town. Unless those entities pay rural educational surtax in accordance with the Circular of the State Council on Raising Education Funds for Rural School (《國務院關於籌措農村學校辦學經費的通知》) which was issued by the State Council and became effective on December 13, 1984, any other entities or individuals liable for consumption tax and value-added tax shall also be required to pay educational surtax. The educational surtax rate is 3%, and the educational surtax shall be based on the amount of consumption tax and value-added tax actually paid by the taxpayer and shall be levied simultaneously.

OVERVIEW

We are a leader in the pan-entertainment product industry in China. Dedicated to offering high-quality, fun and interactive products, we bring joy and positivity to our ever-broadening consumer base.

Our history can be traced back to 2011 when Kayou (Shanghai) Culture Communications, the first company within our Group and then operating entity of our Company in the PRC, was established by Mr. Li, our founder, chairman of the Board, executive Director, chief executive officer, and one of the Controlling Shareholders. In 2019, Zhejiang Kayou Animation and Zhejiang Kayou Technology, our major subsidiaries, were established and became our operating entities in the PRC. For the purpose of the [**REDACTED**], our Company was incorporated as an exempted company with limited liability in the Cayman Islands in May 2021, and, after the Reorganization, our Company became the holding company of our current businesses. In 2022, we received the Pre-[**REDACTED**] Investment from HongShan and Tencent.

OUR KEY MILESTONES

The following is a summary of our Group's key business development milestones:

Year	**Milestone**
2011	Kayou (Shanghai) Culture Communications, the first company within our Group and then operating entity of our Company, was incorporated in the PRC.
2018	Zhejiang Kayou Culture Communications was incorporated in the PRC.
	We launched the first card series based on IP licensed to us.
2019	Zhejiang Kayou Animation and Zhejiang Kayou Technology, our major subsidiaries, were incorporated in the PRC.
	We launched our first TCG card series, Hero Battle TCG cards.
2020	The construction of our self-owned production line of trading cards was completed.
	We started the operation of Hero Battle TCG events.
2021	We opened our first offline flagship store in Guangzhou, Guangdong, marking our footprint in expanding offline flagship stores nationwide.

2022	Our Company received the Pre-[**REDACTED**] Investment from HongShan and Tencent.
	We branched out into stationery products and launched our first IP-themed pen product.
	Our Group was named a "Top 10 Innovative Companies in Printing Industry in China (中國印刷業創新10強)" and an "Annual New Economy High-Growth Enterprise (年度新經濟高成長企業)".
2023	We launched our first figure product.
	We launched products under our first proprietary IP, Kayou Sanguo.
	We launched the Four Classics of Chinese Novels trading cards in collaboration with renowned artist Mr. Dai Dunbang.

OUR MAJOR SUBSIDIARIES AND MAJOR SHAREHOLDING CHANGES

The following sets forth information about our subsidiaries that have made a material contribution to our results of operations during the Track Record Period.

Zhejiang Kayou Animation

Zhejiang Kayou Animation was established in the PRC as a limited liability company with a registered capital of RMB20,000,000 on August 7, 2019, and was owned as to 90% and 10% by Mr. Li and Ms. Qi, respectively. It is principally engaged in the business of manufacturing, sales and marketing of animation-related products. As a result of the Reorganization, Zhejiang Kayou Animation became our wholly-owned subsidiary. See "– Reorganization".

Zhejiang Kayou Technology

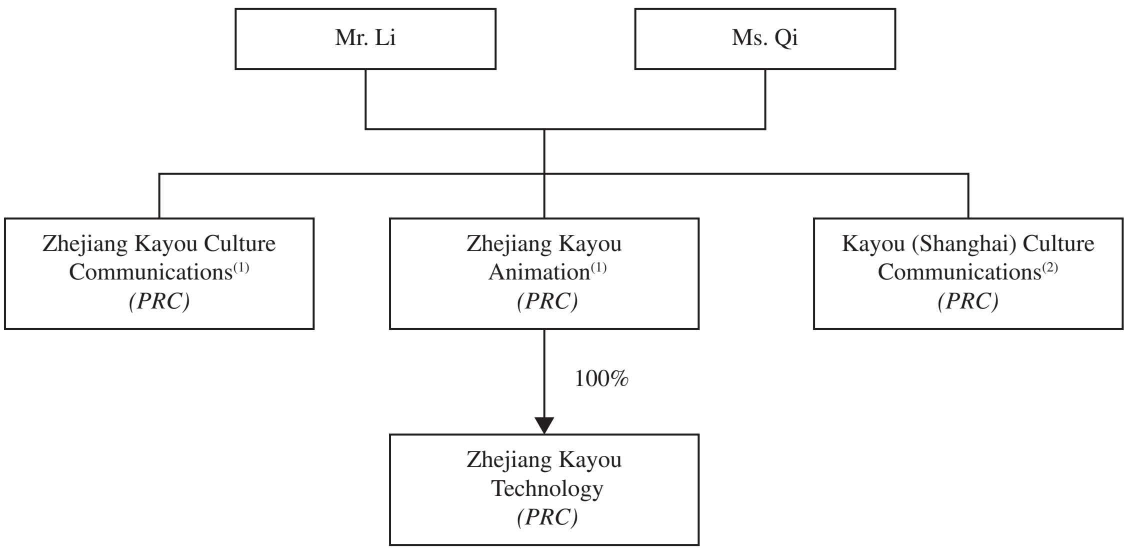
Zhejiang Kayou Technology was established by Zhejiang Kayou Animation, its sole shareholder, in the PRC as a limited liability company with a registered capital of RMB200,000,000 on November 26, 2019. It is principally engaged in the business of manufacturing trading card products. As a result of the Reorganization, Zhejiang Kayou Technology became our wholly-owned subsidiary. See "– Reorganization".

For details of the changes in the share capital of our subsidiaries, see the section headed "Statutory and General Information – A. Further Information about our Group – 3. Changes in the Share Capital of our Subsidiaries" in Appendix V to this Document.

REORGANIZATION

We underwent the Reorganization in preparation for the [**REDACTED**].

The following chart sets out the shareholding and corporate structure of our Group immediately before the Reorganization:



Notes:

As of the date immediately before the Reorganization:

(1) Zhejiang Kayou Culture Communications and Zhejiang Kayou Animation were both held as to 90% and 10% by Mr. Li and Ms. Qi, respectively.

(2) Kayou (Shanghai) Culture Communications was held as to 99% and 1% by Mr. Li and Ms. Qi, respectively.

Establishment of Offshore Holding Companies

Incorporation of Mr. Li's and Ms. Qi's holding companies

On May 20, 2021, Mr. Li, as the sole shareholder, established Liqibin Holdings Limited in the BVI as a holding company of his shares in our Company.

On the same day, Ms. Qi, spouse of Mr. Li, as the sole shareholder, established Qiyan Holdings Limited in the BVI as a holding company of her shares in our Company.

Incorporation of our Company

On May 27, 2021, our Company was incorporated as an exempted company with limited liability in the Cayman Islands, with an authorized share capital of US$50,000 divided into 500,000,000 Ordinary Shares with a par value of US$0.0001 each. Upon incorporation, one Ordinary Share was allotted and issued at a par value of US$0.0001 to our initial subscriber, Sertus Nominees (Cayman) Limited.

On the same day, the initial subscriber transferred one Ordinary Share at a consideration of US$0.0001 to Liqibin Holdings Limited, and issued and allotted 9,899,999 and 100,000 Ordinary Shares to Liqibin Holdings Limited and Qiyan Holdings Limited at a par value of US$0.0001 each, respectively.

Upon completion of the incorporation, our Company was held as to 99% and 1% by Liqibin Holdings Limited and Qiyan Holdings Limited, respectively.

On December 12, 2021, Liqibin Holdings Limited transferred 96,079 of its shares in our Company to Qiyan Holdings Limited. Upon completion, our Company was owned by Liqibin Holdings Limited and Qiyan Holdings Limited as to 98.04% and 1.96%, respectively.

Incorporation of Kayou BVI

On June 7, 2021, Kayou BVI was incorporated under the laws of the BVI as a direct wholly-owned subsidiary of our Company.

Incorporation of Kayou Hong Kong

On June 25, 2021, Kayou Hong Kong was incorporated under the laws of Hong Kong as a direct wholly-owned subsidiary of Kayou BVI.

Reorganization of PRC Subsidiaries

Reorganization of Zhejiang Kayou Culture Communications and Kayou (Shanghai) Culture Communications

On September 18, 2021, each of Mr. Li and Ms. Qi entered into an equity transfer agreement with Zhejiang Kayou Animation, pursuant to which Mr. Li and Ms. Qi agreed to transfer 90% and 10% of equity interest in Zhejiang Kayou Culture Communications to Zhejiang Kayou Animation at a consideration of RMB720,000 and RMB80,000, respectively. The consideration was determined based on a valuation report prepared by an independent valuer. The transfer was registered with the local counterpart of the SAMR on September 29, 2021.

On September 22, 2021, Mr. Li and Ms. Qi entered into an equity transfer agreement with Zhejiang Kayou Animation, pursuant to which Mr. Li and Ms. Qi agreed to transfer 99% and 1% of equity interest in Kayou (Shanghai) Culture Communications to Zhejiang Kayou Animation at a consideration of RMB3,151,665 and RMB31,835, respectively. The consideration was determined based on a valuation report prepared by an independent valuer. The transfer was registered with the local counterpart of the SAMR on September 26, 2021.

Upon completion of the transfers above, both Zhejiang Kayou Culture Communications and Kayou (Shanghai) Culture Communications became wholly-owned subsidiaries of Zhejiang Kayou Animation.

Transfer of Zhejiang Kayou Animation to Kayou Hong Kong

On July 30, 2021, Mr. Li, HSG Growth VI Holdco AD, Ltd. (formerly known as SCC Growth VI Holdco AD, Ltd., "**HongShan AD**") and Zhejiang Kayou Animation entered into an equity transfer agreement, pursuant to which Mr. Li agreed to transfer 3% of the equity interest in Zhejiang Kayou Animation to HongShan AD at a consideration of RMB3,430,191.05. The consideration was determined based on a valuation report prepared by an independent valuer. The transfer was registered with the local counterpart of the SAMR on September 8, 2021. Upon completion of such transfer, Zhejiang Kayou Animation became a Sino-foreign joint enterprise and was held as to 87%, 10% and 3% by Mr. Li, Ms. Qi and HongShan AD, respectively. HongShan AD is an affiliate of HongShan Growth, one of our Pre-[**REDACTED**] Investors. See "– The Pre-[**REDACTED**] Investment – Information Relating to the Pre-[**REDACTED**] Investors" for details.

On November 23, 2021, each of Mr. Li, Ms. Qi and HongShan AD entered into an equity transfer agreement with Kayou Hong Kong to transfer 87%, 10% and 3% of equity interest in Zhejiang Kayou Animation to Kayou Hong Kong at a consideration of RMB109,636,647.00, RMB12,601,913.40 and RMB3,780,574.02, respectively. The consideration was determined based on a valuation report prepared by an independent valuer. The transfer was registered with the local counterpart of the SAMR on November 24, 2021. Upon completion, Zhejiang Kayou Animation became a direct wholly-owned subsidiary of Kayou Hong Kong.

THE PRE-[REDACTED] INVESTMENT

Overview

Our Group has received one round of Pre-[**REDACTED**] Investment since its establishment, the principal terms of which are set out as follows:

Name of Pre-[REDACTED] Investor	HongShan Growth	Grand Hematite Limited
Date of subscription agreement	June 18, 2021	June 18, 2021
Amount of consideration paid	US$104,999,998.50	US$30,000,010.50
Number of Series A Preferred Shares subscribed	1,372,549(1)	392,157(2)
Cost per Series A Preferred Share subscribed	US$76.5(3)	US$76.5(3)

Name of Pre-[REDACTED] Investor	HongShan Growth	Grand Hematite Limited
	[REDACTED]	
Shareholding immediately after the subscription	11.67%	3.33%
Payment date of the consideration	January 11, 2022	December 21, 2021
Basis of consideration	The consideration was determined after arm's length negotiations between the parties with reference to (i) the prospects of our business, and (ii) the strategic benefits to be brought by the Pre-[**REDACTED**] Investment.	
Use of proceeds	We used our proceeds from the Pre-[**REDACTED**] Investment to satisfy the general working capital needs of the Group, subject to the business plan and budget as approved by the Board. The proceeds of US$135,000,009 from the Pre-[**REDACTED**] Investment were fully utilized as of the Latest Practicable Date.	
Strategic benefits	We believed that our Group would greatly benefit from the Pre-[**REDACTED**] Investment as it brought us additional capital, opportunities for resource integration and business expansion, and the ability to recruit and retain talents in the industry.	
Lock-up period	The Shares held by the Pre-[**REDACTED**] Investors will be subject to lock-up arrangements not exceeding 180 days from the date of this Document pursuant to the Shareholders' Agreement (as defined below).	

Notes:

(1) [137,254,900] upon completion of the Share Subdivision;

(2) [39,215,700] upon completion of the Share Subdivision;

(3) US$[0.765] upon completion of the Share Subdivision; and

[REDACTED]

Special Rights of the Pre-[REDACTED] Investors

All of the Pre-[**REDACTED**] Investors are bound by the terms of the currently effective articles of association of our Company (the "**Current Articles**"), which will be replaced by the Articles effective upon the completion of the [**REDACTED**]. Pursuant to the shareholders' agreement entered into by, among others, our Company and the Pre-[**REDACTED**] Investors (the "**Shareholders' Agreement**") and the Current Articles, the Pre-[**REDACTED**] Investors were granted certain special rights in relation to our Company, including, among others, pre-emptive right, redemption rights, right of first refusal, right of co-sale, right of information, liquidation right, director appointment right, etc. All redemption rights, except those only exercisable if the [**REDACTED**] does not take place, were terminated immediately before [**REDACTED**], while all other special rights will be terminated upon the [**REDACTED**].

All of the Series A Preferred Shares will be converted into the Shares on a one-to-one basis immediately prior to completion of the [**REDACTED**], at which time our share capital will comprise one class of Shares, namely, the Ordinary Shares. For further information on the rights attached to the Shares, see "Share Capital."

Information Relating to the Pre-[REDACTED] Investors

Set out below is a description of our Pre-[**REDACTED**] Investors. To the best knowledge of our Directors and save as disclosed in this Document, neither of the Pre-[**REDACTED**] Investors has any past or present relationships with our Company and its connected persons.

HongShan Growth

HongShan Growth is an exempted company with limited liability incorporated in the Cayman Islands, and is wholly owned by HongShan Capital Growth Fund VI, L.P. ("**HongShan GVI Fund**"), whose general partner is HSG Growth VI Management, L.P. ("**HSG Management**"). HongShan GVI Fund is an investment fund whose primary purpose is to make equity investments in private companies. The general partner of HSG Management is HSG Holding Limited, a wholly-owned subsidiary of SNP China Enterprises Limited. Neil Nanpeng Shen, an Independent Third Party, is the sole shareholder of SNP China Enterprises Limited.

Grand Hematite Limited

Grand Hematite Limited is a limited liability company incorporated in Hong Kong on January 13, 2021. It is principally engaged in equity investment and investment holding, and is indirectly wholly owned by Tencent. Tencent is an Independent Third Party.

Pre-[REDACTED] Equity Incentive Plan

On January 11, 2024, we adopted the Pre-[**REDACTED**] Equity Incentive Plan, and 1,307,189 Shares (or 130,718,900 Shares after the completion of the Share Subdivision) were issued to eligible participants. See "Statutory and General Information – D. Share Incentive Scheme" in Appendix V to this Document for details.

Joint Sponsors' Confirmation

On the basis that (i) the [**REDACTED**] is expected to take place on or around [**REDACTED**], and will be more than 120 clear days following the award in connection with the Pre-[**REDACTED**] Equity Incentive Plan, (ii) the redemption rights granted to the Pre-[**REDACTED**] Investors, except those only exercisable if the [**REDACTED**] does not take place, were terminated immediately prior to the [**REDACTED**], and (iii) all other special rights granted to the Pre-[**REDACTED**] Investors will be terminated upon the [**REDACTED**], the Joint Sponsors confirm that the Pre-[**REDACTED**] Investment is in compliance with the guidance in Chapter 4.2 of the Guide for New Listing Applicants issued by the Stock Exchange in December 2023.

CAPITALIZATION OF OUR COMPANY

The following table sets out our shareholding structure (a) as at the date of this Document and (b) immediately upon the completion of the [**REDACTED**].

Shareholders	Ordinary Shares(1)	Series A Preferred Shares(1)	Aggregate number of Shares as at the date of this Document(1)	Aggregate shareholding percentage as at the date of this Document	Aggregate number of Shares upon completion of the [REDACTED](2)	Aggregate shareholding percentage upon the completion of the [REDACTED](2)
Liqibin Holdings Limited	1,071,895,500	–	1,071,895,500	82.00%	1,071,895,500	[REDACTED]%
Qiyan Holdings Limited	19,607,900	–	19,607,900	1.50%	19,607,900	[REDACTED]%
HongShan Growth	–	137,254,900	137,254,900	10.50%	137,254,900	[REDACTED]%
Grand Hematite Limited	–	39,215,700	39,215,700	3.00%	39,215,700	[REDACTED]%
Lishufang Holdings Limited(3)	26,143,700	–	26,143,700	2.00%	26,143,700	[REDACTED]%
DavidLT Holdings Limited(3)	13,071,800	–	13,071,800	1.00%	13,071,800	[REDACTED]%
Other [REDACTED] Shareholders	–	–	–	–	[REDACTED]	[REDACTED]%
Total	1,130,718,900	176,470,600	1,307,189,500	100%	[REDACTED]	100%

Notes:

(1) Assuming the Share Subdivision is completed.

(2) Assuming that the [**REDACTED**] is not exercised, all Series A Preferred Shares have been converted into the Shares on a one-to-one basis and the Share Subdivision is completed immediately upon the completion of the [**REDACTED**].

(3) Shares were issued to them pursuant to the Pre-[**REDACTED**] Equity Incentive Plan. For details, please see "D. Share Incentive Scheme" in Appendix V to this Document.

[**REDACTED**]

MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

We have not conducted any acquisitions, disposals or mergers during the Track Record Period that we consider to be material to us.

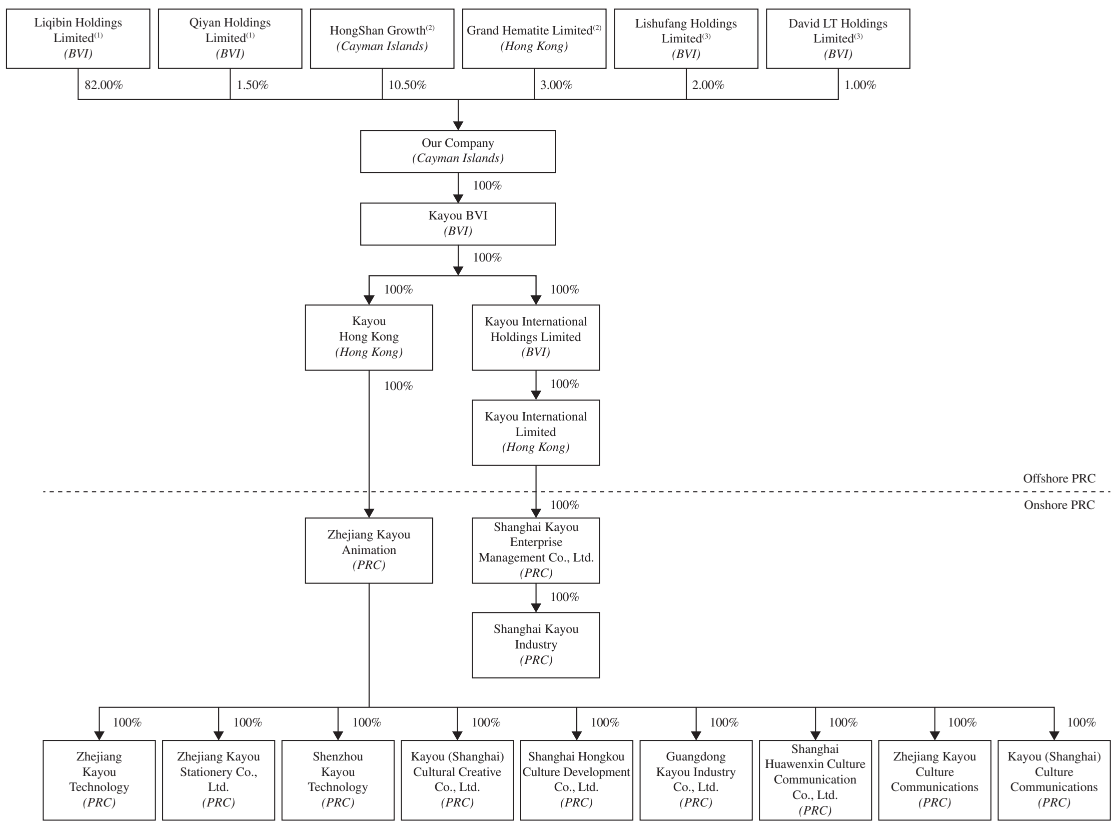
SHARE SUBDIVISION

On [●], our Company [implemented] the Share Subdivision whereby the existing issued and unissued share capital with par value of US$0.0001 each in the authorized share capital of our Company [was] subdivided into 100 shares with par value of US$0.000001 each and the authorized share capital of our Company [was] altered to US$50,000 divided into 50,000,000,000 shares with par value of US$0.000001 each.

CORPORATE STRUCTURE

Corporate Structure Before the [REDACTED]

The following diagram illustrates the simplified corporate and shareholding structure of our Group immediately prior to the completion of the [**REDACTED**]:



Notes:

(1) As at the Latest Practicable Date, Liqibin Holdings Limited and Qiyan Holdings Limited are wholly owned by Mr. Li and Ms. Qi, respectively, and are members of our Controlling Shareholders. See the section headed "– Relationship with our Controlling Shareholders" in this Document for details.

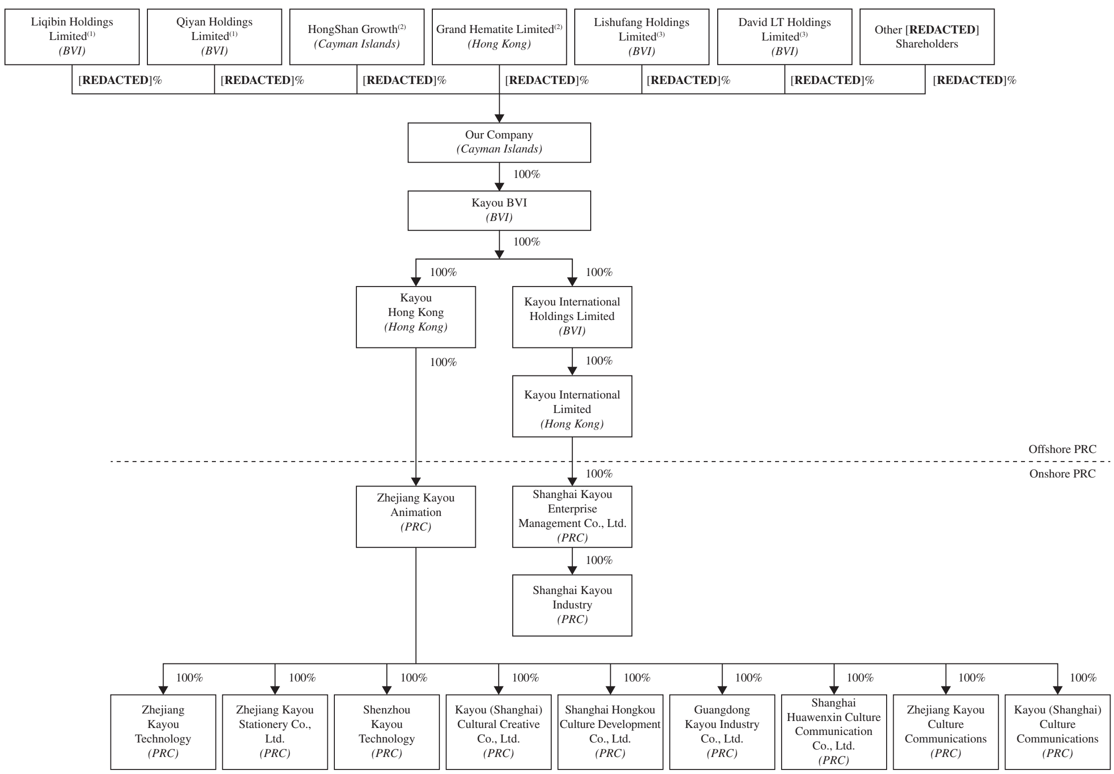
(2) See "– The Pre-[**REDACTED**] Investment" above for details of our Pre-[**REDACTED**] Investors.

(3) Shares were issued to them pursuant to the Pre-[**REDACTED**] Equity Incentive Plan. For details, please see "D. Share Incentive Scheme" in Appendix V to this Document.

(4) We also have 14 subsidiaries incorporated outside the PRC and 29 subsidiaries incorporated in the PRC.

Corporate Structure Immediately Following the [REDACTED]

The following diagram illustrates the simplified corporate and shareholding structure of our Group immediately following the completion of the [**REDACTED**] (assuming that the [**REDACTED**] is not exercised and all Series A Preferred Shares have been converted into the Shares on a one-to-one basis immediately upon the completion of the [**REDACTED**]):



Notes (1)-(4): See respective notes under "Corporate Structure Before the [**REDACTED**]" as set out above.

PRC REGULATORY REQUIREMENTS

Our PRC Legal Advisor has confirmed that: (i) all relevant approvals or filings have been obtained or made, as applicable, for changes in share capital and equity transfers in the PRC as mentioned above; and (ii) the Reorganization has complied with all applicable laws and regulations in the PRC and we have obtained all necessary approvals from the relevant PRC governmental authorities in relation to the Reorganization.

M&A Rules

According to the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (2009 Revision) (關於外國投資者併購境內企業的規定) (2009修訂) (the "**M&A Rules**") jointly issued by the MOFCOM, the State-Owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), the SAT, the CSRC, the SAMR and the SAFE on August 8, 2006 and effective as at September 8, 2006 and subsequently amended on June 22, 2009, where a domestic natural person intends to take over his/her related domestic company in the name of an offshore company which he/she lawfully established or controls, the takeover shall be subject to the examination and approval of MOFCOM, and where a domestic natural person holds an equity interest in a domestic company through an offshore special purpose company, any transaction involving the overseas listing of that special purpose company shall be subject to approval by the CSRC.

Pursuant to the Manual of Guidance on Administration for Foreign Investment Access (《外商投資准入管理指引手冊》) promulgated by Foreign Investment Department of MOFCOM in December 2008, notwithstanding the fact that (i) the domestic shareholder is connected with the foreign investor or not; or (ii) the foreign investor is the existing shareholder or a new investor, the M&A Rules shall not apply to the transfer of an equity interest in an existing foreign-invested enterprise from the domestic shareholder to the foreign investor.

As advised by our PRC Legal Advisor, since HongShan AD was not a related party of Zhejiang Kayou Animation, the share transfer between Mr. Li and HongShan AD was not subject to Article 11 of the M&A Rules and no approval from MOFCOM was required. Given that Zhejiang Kayou Animation was an existing foreign-invested enterprise prior to the acquisition of the equity interest by Kayou Hong Kong, the acquisition was not subject to M&A Rules. Unless new laws and regulations are enacted, or MOFCOM or CSRC publishes new provisions or interpretations on the M&A Rules to the contrary in the future, the M&A Rules are not applicable to, and no approval from MOFCOM or CSRC is required for, the aforementioned acquisitions.

SAFE Registration in the PRC

Pursuant to the Circular on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-Trip Investment by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》, "**SAFE Circular 37**"), promulgated by SAFE and which became effective on July 4, 2014, (i) a PRC resident must register with the local SAFE branch in connection with their contribution of offshore or domestic assets or equity interests in an overseas special purpose vehicle (the "**Overseas SPV**") that is directly established or indirectly controlled by the PRC resident for the purpose of conducting overseas investment or financing; and (ii) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change in respect of the Overseas SPV, including, among other things, a change of the Overseas SPV's PRC resident shareholder(s), the name of the Overseas SPV, its terms of operation, or any increase or reduction of the Overseas SPV's capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties. In addition, due to such failure to comply with the registration procedures, the PRC subsidiaries of that Overseas SPV may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities, and the Overseas SPV and its offshore subsidiary may be restricted in their ability to contribute additional capital to their PRC subsidiaries.

Pursuant to the Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), promulgated by SAFE and effective on June 1, 2015, the power to accept SAFE registration was delegated from the local SAFE to qualified banks.

As advised by our PRC Legal Advisor, as at the Latest Practicable Date, Mr. Li, Ms. Qi, LI Shufang and LUO Ninglin completed the registration under the SAFE Circular 37.

[**REDACTED**]

OVERVIEW

Our Mission

To share joy and inspire positivity.

Our Vision

To become a global leading pan-entertainment product group, connecting with and providing long-lasting companionship to consumers.

Who We Are

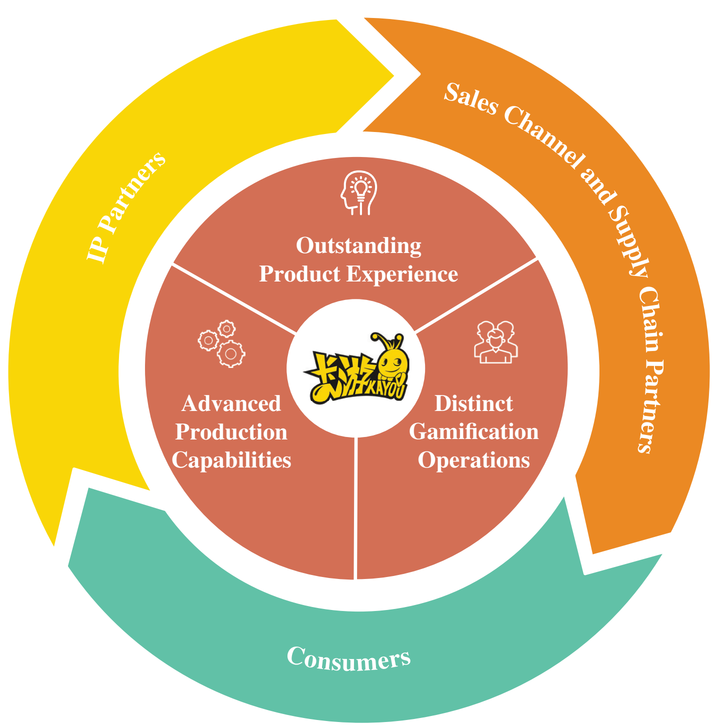
We are a pioneer and leader in the pan-entertainment product industry in China. Dedicated to offering high-quality, fun and interactive products, we bring joy and positivity to our ever-broadening consumer base. Our industry positions in China in terms of GMV in 2022 according to CIC are as follows:

- We ranked second in the pan-entertainment product industry and the pan-entertainment toy industry;
- We ranked first in the fast-growing trading card sector of the pan-entertainment toy industry; and
- We ranked seventh in the pan-entertainment stationery industry.

Having pioneered the trading card business in China, we have benefited from a unique and integrated business model anchored on outstanding product experience, distinct gamification operations and advanced production capabilities. This business model encompasses key components of the industry value chain and places us in a pivotal role to foster the pan-entertainment culture and advance industry standards. While solidifying our leadership in trading cards, we have enriched our toy product offerings to introduce other product categories such as figures, trading card collection books, badges, stickers and acrylic stands. We have also branched out into stationery products to roll out products such as pens and notebooks. We have strategically built this diverse product mix to meet a broad spectrum of consumer needs. With product designs and innovations benefiting from quality IP content and craftsmanship, and fueled by advanced production technologies and strong supply efficiency, we can consistently roll out products that not only feature outstanding collectability, playability and functionality, but also resonate with consumers. Pan-entertainment products, particularly trading cards, intrinsically lend themselves to gamification. Through our distinct gamification operations, we have amplified our product values with cognitive development, fun and competition. Our gamification operations can fulfill multifaceted entertainment and social interaction needs by connecting family members, friends and fellow gameplayers. Being a trusted provider of long-lasting companionship to consumers, we have built, and continue to grow, a large consumer base.

We had curated a diverse IP matrix of 44 IPs as of September 30, 2023, catering to a broad spectrum of consumers. Such strong IP matrix is our foundation for continually designing, developing and launching new pan-entertainment products. Our valuable industry insights and strong IP operation capabilities spanning across IP sourcing, development to commercialization enable us to enhance IP popularity, extend IP lifespan and maximize IP commercial value. Such compelling values can in turn attract more IP resources to form a virtuous cycle of mutual growth. In the meantime, we strive to develop proprietary IPs. We launched products under our first proprietary IP in April 2023, the design of which infused Chinese traditional cultural content with young and creative expressions.

We are unwaveringly committed to our mission to share joy and inspire positivity. Our brand and products are widely recognized in China. Dedicated to conveying positive values through our operations across product design, TCG events and community endeavors, we are building up a trustworthy brand image among the youth, their parents and the wider public. For example, we have launched the Four Classics of Chinese Novels trading cards in collaboration with renowned artist Mr. Dai Dunbang. The series promotes awareness of Chinese traditional culture by showcasing classic figures and scenes in forms popular among consumers, in particular the youth. In addition, we have consistently sponsored charitable and other public welfare activities, with a particular aim to support disadvantaged groups such as children in poverty or suffering from autism.



Our Value Propositions

Our leading industry position in China, extensive experience and core competencies have culminated in compelling value propositions for the key stakeholders engaged in our business model:

Consumers:

- We offer high-quality, fun and interactive products;
- We fulfill multifaceted entertainment and social interaction needs by connecting consumers and creating bonding experience; and
- We provide long-lasting companionship to consumers along with their growth.

IP Partners:

- We enhance IP popularity; and
- We extend commercialization opportunities to IP partners and expand their audience base, promoting the inclusivity of art.

Sales Channel and Supply Chain Partners:

- We continually create business opportunities for mutual growth; and
- We facilitate business upgrades for our sales channel and supply chain partners through in-depth collaborations.

Our Market Opportunities

The size of the fast-growing pan-entertainment product industry in China reached RMB129.7 billion in terms of GMV in 2022 at a CAGR of 17.3% from 2017 to 2022, and is expected to reach RMB230.4 billion in 2027 at a CAGR of 12.2% from 2022 to 2027, according to CIC.

High-quality products showcasing resonating content and fine craftsmanship offer enjoyable consumer experience and stand better opportunities in attracting consumers. As a leading pan-entertainment product brand in China with strong product design and development capabilities, robust IP and gamification operations, advanced production capabilities and nationwide sales network, we are well-positioned to seize growth opportunities boosted by industry tailwinds.

Our Performance

Our revenue was RMB2,298.3 million, RMB4,131.1 million and RMB1,951.5 million in 2021, 2022 and the nine months ended September 30, 2023, respectively. We had net loss of RMB153.2 million and RMB296.0 million in 2021 and 2022, respectively, and we had net profit of RMB260.2 million in the nine months ended September 30, 2023. Our adjusted net profit (*non-IFRS measure*) was RMB795.4 million, RMB1,619.7 million and RMB578.1 million in 2021, 2022 and the nine months ended September 30, 2023, respectively. See "Financial Information – Description of Major Components of Our Results of Operations."

OUR STRENGTHS

A Pioneer and Leader in the Pan-entertainment Product Industry in China

We are committed to inspiring enthusiasm for trading cards and other pan-entertainment products by offering high-quality, fun and interactive products. Having pioneered the trading card business in China, we have benefited from a unique and integrated business model that encompasses key components of the industry value chain across product development, production and gamification operations. We have established our leading position in the pan-entertainment product industry in China. Our industry positions in China in terms of GMV in 2022 according to CIC are as follows: (i) we ranked second in the pan-entertainment product industry and the pan-entertainment toy industry; (ii) we ranked first in the fast-growing trading card sector of the pan-entertainment toy industry; and (iii) we ranked seventh in the pan-entertainment stationery industry.

We have successfully cultivated and promoted the popularity of pan-entertainment culture in China through our product designs and operation strategies tailored for consumer preferences. We have strategically built a diverse product mix to meet a broad spectrum of consumer needs. With product designs and innovations benefiting from quality IP content and craftsmanship, and fueled by advanced production technologies and strong supply efficiency, we can consistently roll out products that not only feature outstanding collectability, playability and functionality, but also resonate with consumers. We can inspire positivity through selected IP with positive values. In addition, our innovative and interactive gameplay designs and TCG events have further enhanced consumer experience in terms of entertainment, cognitive development and social interaction. As a result, we have gained recognition from the youth, their parents and the wider public, and have continually enlarged our consumer base and built up a trustworthy brand image.

As a leading player in the pan-entertainment product industry in China with strong brand recognition, we are well-positioned to seize the industry opportunities and have exhibited compelling growth potential.

Strong Product Design and Innovation Capabilities that Create a Diverse and Continually Upgrading Product Mix

Based on in-depth understanding of each IP's distinct style and leveraging our strong product design and innovation capabilities, we have created products that capture the essence of each IP to bond with consumers. We have infused our products with playability, social interaction and cultural values through distinct gamification operations and constantly surprised consumers with new gameplay designs and product series. By continually bringing excitement, novelty and fun to consumers, we have boosted product popularity and promoted our brand recognition.

Our product design and development is driven by multiple studios and a support team. Powered by such product design and development framework, we are able to ensure product development efficiency and flexibility to timely seize market opportunities. The time needed from product design to product available for sale at end sales points can be as short as 20 to 30 days. Specifically, we had nine studios focusing on product design and development as of the Latest Practicable Date, composed of 270 talented individuals specializing in areas such as sketch painting, graphic design and 3D design. Driven by curiosity and enthusiasm for creation, our design and development team analyzes consumer preferences for constant launch of popular products. Striving to stay at the forefront of technological advancements, our team has also utilized intelligent tools such as AIGC to improve efficiency on basic tasks. In addition, we had a support team composed of more than 90 artistic design personnel as of the Latest Practicable Date, allowing flexible deployment to support the studios as needed.

We have strategically built a diverse and continuously upgrading product mix to meet the evolving preferences of a broad consumer base. Specifically, while solidifying our leadership in trading cards, we have enriched our toy product offerings to introduce other product categories such as figures, trading card collection books, badges, stickers and acrylic stands. We have also branched out into stationery products to roll out products such as pens and notebooks. We have utilized our resources and capabilities in IP development, product design, production and sales to rapidly pave the way for our new product categories to scale up our business. Evident to such efforts, our revenue generated from sales of toys other than trading cards was RMB128.8 million, RMB180.0 million and RMB142.7 million in 2021, 2022 and the nine months ended September 30, 2023, respectively, and our revenue generated from sales of stationery products was nil, RMB20.9 million and RMB133.8 million in 2021, 2022 and the nine months ended September 30, 2023, respectively. In addition to product category expansion, we have been routinely releasing new product series with differentiated functionality, IP themes and pricing under existing product categories. In 2021, 2022 and the nine months ended September 30, 2023, we rolled out (i) 143, 190 and 177 series of toys, respectively, including 132, 168 and 121 series of trading cards in the same respective periods; and (ii) nil, six and 52 series of stationery products, respectively.

Distinct and Fun Gamification Operations Leading to Comprehensive Consumer Engagement and Strong Brand Recognition

Through our distinct gamification operations which primarily comprise innovative gameplay design and TCG events, we have amplified our product values with cognitive development, fun and competition and have earned recognition from a broad spectrum of consumers.

Pan-entertainment products, particularly trading cards, intrinsically lend themselves to gamification. We have injected distinctive gameplay elements into our products to reinforce the collectability and playability of our products. For example, we design product series themed on IPs with complete storylines and we portray the condensed stories across each product under such series. We also classify our products into rarities and have a full-fledged rarity system. Such approaches keep our collection system fresh and engaging. In addition, we elaborately devise gameplay rules for our products, such as trading cards and figures. The well-designed gameplay rules make our products one of the preferred choices for entertainment and social interactions that connect family members, friends and fellow gameplayers. We constantly innovate gameplay designs to continually bring excitement, novelty and fun to consumers to maintain the market momentum of our products.

TCG events are an integral component of our gamification operations. We can intensively interact with players through such events and gain extensive consumer insights, improve IP popularity, engage consumers and expand consumer base. During the Track Record Period and up to the Latest Practicable Date, we had successfully held over 3,000 competitions across over 100 cities in China. We have a comprehensive TCG event system and a dedicated team responsible for formulating systematic plans for hosting and promoting each event. Notably, our national Hero Battle TCG events are live streamed online, sharing the fun with a wide range of audience, and we have cultivated a community for trading card players. Our impactful promotion activities generate strong network effects and bolster our brand recognition.

Diverse and High-quality IP Matrix and Proven IP Operation Capabilities

We have curated a diverse IP matrix that attracts a broad spectrum of consumers, laying a solid foundation for our continuous product launch and consumer base expansion. Our IP matrix comprised 44 IPs as of September 30, 2023, encompassing well-known IPs such as Ultraman, Yeloli, Kayou Sanguo, The Land of Warriors animation, Eggy Party, Naruto, Detective Conan and Harry Potter.

We have been persistently enriching our IP matrix through licensing from IP partners and development of proprietary IPs. We benefit from extensive industry experience and valuable consumer insights to continuously identify and commercialize high-quality IP resources with strong potential. For example, with a keen sense of the rising popularity of Chinese comics and animation in recent years, we have licensed from renowned media and animation companies for leading Chinese comics and animation IPs such as The Land of Warriors animation and The Legend of Qin. We have developed and upgraded multiple series of products under such Chinese comics IPs, timely capturing the trend while innovating in the consumption of Chinese cultural content. We have also been strategically strengthening our in-house IP development capabilities to reinforce our creation agility to timely identify and seize market opportunities. We launched products under our first proprietary IP, Kayou Sanguo, in April 2023. The design of the series infused Chinese traditional cultural content with young and creative expressions.

We strengthen IPs with strong and fully-fledged IP operations that extend beyond mere product exposure. Staying true to each IP's distinct style, we create products that resonate with consumers and we constantly release new product series under each IP series to maintain its market momentum. We have a proven track record of successfully enhancing IP popularity, extending IP lifespan and maximizing IP commercial value. For example, for Ultraman, since 2018 when we licensed Ultraman IP and up to September 30, 2023, we had launched a total of 274 trading card series and 28 stationery series based on more than 50 Ultra Hero characters, propelling the ramp-up of enthusiasm for Ultraman. For Yeloli, since 2019 when we licensed Yeloli IP and up to September 30, 2023, we had launched a total of 91 trading card series and two stationery series based on Yeloli characters for which we have developed products authentic to the original characters and tailored marketing strategies.

Our robust IP operation capabilities make us the trustworthy and sophisticated go-to collaborator for IP partners. Our proven track record of successful IP operations solidifies our reputation in the industry. Our compelling values can in turn attract more IP resources to form a virtuous cycle of mutual growth.

Efficient Operations Underpinned by Advanced Production Capabilities and Supply Chain Management

Embracing the spirit of craftsmanship, we are dedicated to producing superior products leveraging our advanced production capabilities and supply chain management.

We strive to stay at the forefront of technological advancements in production. We have constantly introduced advanced production equipment and optimized our production technologies to improve product quality and enhance production efficiency. For example, (i) we have purchased printing equipment from global-leading manufacturers and achieved world-class printing quality, speed and efficiency; (ii) we have stayed attuned to the latest production technological development globally and collaborated with leading suppliers on raw materials development, technology innovation and equipment upgrades, utilizing advanced technologies such as lenticular printing, silk screen printing and hot foil stamping and platinum etching in our production; and (iii) we have innovatively incorporated materials such as leather, metal, textile and embroidery into our trading cards for decoration. We have also been consistently enhancing the automation, digitalization and intelligence of our entire production chain through upgrades to equipment utilized in key production processes.

We had three production bases and one logistics center, together with two production bases under construction as of the Latest Practicable Date. Strategically located in Zhejiang and Guangdong provinces with abundant consumer goods supply chain resources, our production bases can efficiently support our sales network nationwide. Leveraging our valuable insights into consumer demand, we forecast order volumes and allocate production resources to optimize inventory management. We operate one logistics center in Yiwu, Zhejiang, one of the world's largest small commodities markets known for well-developed logistics infrastructure and cost-effective operations. The advantageous location of our logistics center enables us to promptly respond to demand across China. Our robust integrated operations spanning the full process from product design, production to sales ensure our efficient and stable supply of products. The time needed from product design to product available for sale at end sales points can be as short as 20 to 30 days. Such a rapid product launch cycle allows us to stay at the forefront of market trends and benefit from emerging opportunities.

Our advanced production capabilities and consistently improving supply chain efficiency yield substantial cost advantages through economies of scale. We are able to offer high-quality products across a broad price spectrum while maintaining remarkable cost-effectiveness. Our gross profit margin was 58.1%, 68.8% and 67.3% in 2021, 2022 and the nine months ended September 30, 2023, respectively. Our transportation and logistics expenses as a percentage of our revenue was consistently less than 1.0% in 2021, 2022 and the nine months ended September 30, 2023.

Nationwide Sales Network with Extensive Consumer Reach

Strategically expanding our online and offline presence in multiple channels, we have built a nationwide sales network, through which we are able to engage consumers and gather consumer insights.

We had cultivated a robust nationwide distributor network with over 200 distributors in 31 provinces as of September 30, 2023. We select distributors carefully and mainly collaborate with distributors with strong local resources. Leveraging our professional service personnel and information systems, we offer comprehensive support to our distributors in aspects such as product information training, inventory management, consumer marketing and sales performance analysis, which benefits the overall performance and service quality of our distributor network, as well as our control over such network.

We have also been exploring other online and offline sales channels to accommodate varied consumption scenarios, enlarge consumer base and offer differentiated purchase experience, making our products more accessible while bolstering our brand recognition. For example, we have broadened our online presence through online self-operated stores on e-commerce platforms such as Tmall, JD and Pinduoduo and other online sales channels such as Douyin, WeChat mini program and Bilibili so that we can seize new retail opportunities. The first-hand consumer reviews in such online operations aid the continuous optimization of our product design, marketing strategies and sales channel operations. In addition, we operate offline stores to directly interact with consumers and promote our brand recognition. We also have offline vending machines to offer unique purchase experience. These sales channels other than distributor channels have played an increasingly important role in our sales network during the Track Record Period. Our revenue from sales channels other than distributor channels increased significantly from RMB73.3 million in 2021 to RMB304.2 million in 2022, and increased by 48.4% from RMB246.9 million in the nine months ended September 30, 2022 to RMB366.5 million in the nine months ended September 30, 2023.

Visionary and Seasoned Founder and Management Team

Our founder and Chairman, Mr. Li Qibin, stands as a determined and visionary entrepreneur. With over 20 years of industry experience, Mr. Li has valuable insights into the pan-entertainment product industry in China and the global arena, especially in the field of trading cards. Mr. Li stays steadfast in his initial vision to infuse entertainment and cultural content in product innovation. Under Mr. Li's leadership, we have a professional and dedicated management team possessing rich management experience and profound industry insights. Our management team is instrumental to our operations and has steered our Group to be a leading pan-entertainment product company in China, demonstrating exceptional strategic foresight and execution capabilities.

We believe that our ongoing efforts on team building sustain our long-term development. We have adopted a talent development and incentive framework, which, coupled with our innovative and pragmatic corporate culture, amplifies our attractiveness to talent. We recruit graduates with great potential and set clear career development goals and paths from the beginning of their employment.

OUR STRATEGIES

We are committed to the long-term goal of inspiring and staying with consumers. We focus on the following key strategies:

Expand Product Categories and Enrich Product Mix

We relentlessly adhere to our proposition of developing high-quality products. We intend to enrich our product mix with more fun and high-quality pan-entertainment products while solidifying our existing business operations.

We plan to continuously enhance our product design and development capabilities. We plan to continue investing in research and development for product category expansion to create new growth engines. For existing product categories, we intend to incorporate more fun elements and roll out more products. We plan to continuously develop and upgrade production technologies and introduce novel materials to amplify the collectability, the artistic appeal or the functionality of our products. We also intend to roll out new products themed on a broader range of IPs. Our efforts in expanding our product offerings are expected to meet increasingly individualized and varied demand for pan-entertainment products from a broader consumer base, enabling us to reach consumers and provide long-lasting companionship to them.

Diversify Our IP Matrix and Strengthen IP and Gamification Operations

We plan to further expand our IP matrix through collaboration with a wider range of artists and other IP partners, as well as intensified efforts in proprietary IP development and operation. In particular, we plan to collaborate with more domestic artists and develop more IPs with Chinese traditional cultural content, aiming to contribute to the diverse, young and creative expression of domestic pan-entertainment content. We plan to further upgrade our IP operation capabilities with accumulated industry insights and experience.

We also strive to maintain and further stimulate the popularity of our products and engage consumers through continuous gamification operations. We plan to continuously innovate gameplay designs that maintain a comprehensive and balanced collection system and create novel and entertaining experience, amplifying our product values with collectability, playability, cognitive development and social interactivity. We plan to further improve the TCG event system and host events with wider geographical reach, more skillful game players and enhanced gameplay innovations, seeking broadened, intensified and effective influence of our Kayou brand and associated IPs.

Enhance Product Craftsmanship and Improve Production Capabilities

We intend to closely communicate and collaborate with top-tier craftsmanship and technology providers in the industry to customize or collaboratively develop advanced technologies, equipment or production lines, maintaining the competitive technical strengths of our production bases and continuously improving the craftsmanship of our products. We also aim to strengthen automation in production processes to improve our production efficiency. In addition, we plan to increase investment on information systems to enhance the intelligence and digitalization of our business processes. We intend to further integrate and upgrade information systems comprehensively from front-end to back-end and from parts to whole, enhancing our holistic and integrated management over the entire production, warehousing and logistics processes.

We plan to establish new production bases or upgrade our existing production capacity for major product categories such as trading cards, pens and notebooks. Our two production bases under construction in Yiwu, Zhejiang are expected to commence operation in 2024 and 2025, respectively. We also intend to upgrade our existing production capacity and improve our technology and intelligence capabilities. We anticipate that we could further enhance our product supply stability and benefit more from economies of scale along with our production facility expansion and upgrade. In addition, we intend to continuously improve production management and enhance production flexibility.

Strengthen Our Multi-channel Sales Network

We focus on sales network optimization and sales channel diversification to reach a broader consumer base. On the one hand, we plan to consistently broaden our presence and increase our penetration in the distributor network. We intend to identify and collaborate with capable and entrepreneurial distributors. We aim to continuously optimize our distributor network with qualified distributors and improve their overall performance and service quality with our comprehensive support. On the other hand, we also plan to continue exploring and deepening our penetration in sales channels other than distributor network. We intend to expand our online operations with self-operated stores on e-commerce platforms or other online channels to seize new retail opportunities driven by new consumption trends. We also plan to improve offline presence through offline stores and vending machines that accommodate varied consumption scenarios in shopping centers, local communities and street-side locations.

Attract, Nurture and Retain Talents

We are dedicated to attracting, nurturing and retaining capable talents to accommodate our business development needs and solidify the competitive edges of our business.

We intend to build a professional, interdisciplinary and diverse team by recruiting passionate and skilled talents in areas such as product design, content operations, production, automation and digitalization. In addition, we plan to devise a more comprehensive talent development framework coupled with regular well-designed training to enhance the business awareness and expertise of our talent team. We intend to keep offering competitive remuneration packages and benefits to cultivate a healthy work environment that promotes proactivity, creativity and entrepreneurship among our talents.

Proactively Pursue Overseas Expansion

We believe that the overseas markets for pan-entertainment products offer vast opportunities and significant growth potential. Leveraging our extensive operation experience in the pan-entertainment product industry in China, we consider strategically expanding our footprint into overseas markets in the future.

We plan to continuously enrich our IP matrix and expand the licensed territory under our existing IP licenses. Specifically, the licensed territory of our certain popular licensed IPs had expanded to overseas markets such as Southeast Asia as of the Latest Practicable Date. We plan to collaborate with suitable local partners to offer differentiated products and implement tailored marketing and branding strategies based on the consumer preferences in these overseas markets.

OUR BRAND AND PRODUCTS

Kayou has become one of the most widely recognized pan-entertainment product brands in China. Under our singular and strong brand Kayou, we convey the message of our mission and vision clearly and concisely to consumers. We have built, and continue to enrich, a diverse product mix and an extensive IP matrix. Our strong brand power augments synergies among our product offerings, sustaining our long-term growth.

Our brand recognition has earned us awards and honors from reputable institutions. For example, Kayou was recognized as (i) the Influential Brand in Consumer Market Industry in 2023 by Consumer Daily; (ii) the Annual Rising Brand in 2022 by Caijing Magazine; and (iii) one of the brands listed on the New Consumption Brand Power List in 2022 by iYiou.

Our Product Offerings

Toys, particularly trading cards, are our core products. We have pioneered the trading card business in China, according to CIC. While solidifying our leadership in trading cards, we have enriched our toy product offerings with other toy categories. We have also branched out into stationery products. The following table sets forth a breakdown of our revenue by product category for the periods indicated:

	Year ended December 31,				**Nine months ended September 30,**			
	2021		**2022**		**2022**		**2023**	
	(RMB in millions)	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*
					(Unaudited)			
Toys	2,298.3	100.0	4,110.2	99.5	3,644.0	99.8	1,817.7	93.1
– Trading cards	2,169.5	94.4	3,930.2	95.1	3,479.7	95.3	1,675.0	85.8
– Figures	–	–	–	–	–	–	80.1	4.1
– Other toys[1]	128.8	5.6	180.0	4.4	164.3	4.5	62.6	3.2
Stationery products	–	–	20.9	0.5	8.1	0.2	133.8	6.9
Total	2,298.3	100.0	4,131.1	100.0	3,652.1	100.0	1,951.5	100.0

Note:

(1) Primarily include trading card collection books, badges and stickers.

We have built a diverse product mix leveraging our strong product design and innovation capabilities. Our product design and development is driven by multiple studios and a support team. With product designs and innovations benefiting from quality IP content and craftsmanship, and fueled by advanced production technologies and strong supply efficiency, we can consistently roll out products that not only feature outstanding collectability, playability and functionality, but also resonate with consumers. Set forth below are our representative products:

Toys

Trading Cards
(Typical Suggested Retail Price Per Sales Unit[(1)]: RMB1.0 to RMB99.0)

Ultraman Universe Hero collection cards

Ultraman Hero Battle TCG cards


Kayou Sanguo collection cards


The Land of Warriors animation collection cards


Yeloli Fairyland collection cards

Figures
(Typical Suggested Retail Price Per Sales Unit[(1)]: RMB10.0 to RMB25.0)


Kayou Sanguo figures

Other Toys
(Typical Suggested Retail Price Per Sales Unit[1]: RMB5.0 to RMB70.0)

Trading card collection books

Stickers

Badges

Acrylic stands

Jigsaw puzzles

Stationery Products
(Typical Suggested Retail Price Per Sales Unit[1]: RMB5.0 to RMB30.0)

Pens

Detective Conan pens

Yeloli pens

Cherry Blossom pens

Notebooks

Ultraman notebooks

My Little Pony notebooks

Truffe Bear notebooks

Note:

(1) Sales unit stands for piece, pack or box, which are the minimum units for product sales.

The following table sets forth a breakdown of our sales volume by product categories for the periods indicated:

	Year ended December 31,		Nine months ended September 30,	
	2021	2022	2022	2023
	(sales unit in millions(1))	*(sales unit in millions(1))*	*(sales unit in millions(1))*	*(sales unit in millions(1))*
Toys	1,289.5	2,328.9	2,087.4	1,074.7
– Trading cards	1,270.6	2,286.0	2,056.9	1,039.5
– Figures	–	–	–	17.1
– Other toys(2)	18.9	42.9	30.5	18.1
Stationery products	–	4.8	1.9	31.1

Notes:

(1) Sales volume represents the number of products we sold to our customers. To unify the measurement of the sales volume of each product category at corresponding specifications, sales unit could stand for piece, pack or box, which are the minimum units for product sales.

(2) Primarily include trading card collection books, badges and stickers.

Toys

We offer a wide range of toys including trading cards, figures and other toys such as trading card collection books, badges, stickers and acrylic stands. In 2021, 2022 and the nine months ended September 30, 2023, we rolled out 143, 190 and 177 series of toys, respectively.

Trading Cards

Trading cards are physical cards showcasing distinctive themes, which are designed for collection, trading or game among consumers. Leveraging our strong product design and development capabilities, we rolled out 132, 168 and 121 series of trading cards in 2021, 2022 and the nine months ended September 30, 2023, respectively.

Quality content and craftsmanship are the key values of our trading cards, which solidify consumer experience.

Card content

With diverse themes and exquisite artistic styles, our trading cards deliver fun and creativity, fostering aesthetic and cultural awareness.

Theme. The theme of our trading cards spans across categories such as fictional IP characters, classic scenes and artworks, centered around a broad range of IPs. See "– IP Matrix and Operations – Our IP Matrix." Based on our deep understanding of IPs, we curate themes that resonate with consumers, consistently enhancing the collectability and sentimental value of our trading cards through innovation. For example:

- We develop trading card series for popular IP characters. For example, we had reproduced the classic postures of more than 50 Ultra Hero characters as of September 30, 2023, incorporating commemorative elements such as signatures of the Ultra Hero characters;

- We design trading cards that capture the classic scenes from movies, television series, comic books and animation. For example, we portrayed the classic movie still from Harry Potter movie series on our trading cards and inscribed the corresponding movie quotes on the back of these cards, evoking consumers' memories relating to the wizarding world; and

- We depict renowned artworks on our trading cards. For example, we collaborated with renowned artists such as Mr. Dai Dunbang or institutions such as the British Museum to provide consumers with an enjoyable collecting experience that combines the fun of trading cards with the cultural value of grand artworks.

Fictional IP character theme

Classic scene theme

Artworks theme

Artistic style. We employ a variety of artistic styles during re-creation in card design, such as line drawing, watercolor, stained glass pattern, comics and Chibi style. We also proactively explore the unique Chinese artistic styles, such as ink wash painting, to promote traditional Chinese culture. We carefully design the color palette and decorative elements of our trading card background to complement the themes.

Comics style

Stained glass style

Ink wash painting style

Fun and cultural elements. We incorporate fun and cultural elements to our trading cards to enhance their collectability. For example:

- We have a full-fledged rarity system for our trading card portfolio. Based on the difference in production volume, our trading cards are typically classified into rarities ranging from Normal, Rare, Super Rare, Superior Super Rare, Holographic Rare to Ultimate Rare. Some trading cards series introduce more nuanced rarity levels such as Collector Platinum and Chibi Rare, which vary in appearance, texture and craftsmanship;

- We launch trading card series themed on IPs with complete storylines, such as Kayou Sanguo, for which we portrayed the condensed stories in the classic novel across a series of trading cards. This approach provides consumers with a potential sense of accomplishment as they gradually build up their collection to form a larger picture;

- We incorporate puzzle elements into the design of our trading cards. For example, the artistically designed background of individual cards in a series can be connected to form a complete picture with visual appeal;

- We offer transparent card sets with individual IP character cards and background cards, which allow consumers to match and overlap a character card with various background cards to create their customized trading card collection; and

- We explore IPs with cultural value to enhance the positivity conveyed through our products. For example, we launched the Four Classics of Chinese Novels trading cards through collaboration with renowned artist Mr. Dai Dunbang, and we launched Kayou Sanguo trading cards under our proprietary IPs.

British Museum puzzle cards

Four Classics of Chinese Novels trading cards

Kayou Sanguo trading cards

Card craftsmanship

We stay at the forefront of production technologies and use of materials to ensure the craftsmanship and quality of our products.

Leveraging advanced technologies, we are able to continuously improve the texture and appearance of our trading cards. For example:

- We apply the lenticular printing technologies to generate 3D image or dynamic effects on trading cards;
- We utilize the silk screen printing and hot foil stamping technologies to generate a metallic and shimmering effect and debossing and embossing texture on wide range of printing materials;
- We apply the platinum etching to create the embossing effects on our trading cards, enhancing the tactile and visual experience of the consumers;
- We utilize holographic iridescent technology to create dynamic patterns and a sense of depth on the flat surface of trading cards; and
- We adopt structured light pattern technology to present more than 300 types of exquisite textures on the surface of the card through embossing or varnishing.

We utilize a multitude of printing materials, such as coated paper, hologram paper, art paper and lenticular sheet in trading card printing to improve the overall card image and accentuate the artistic design. We use quality ink in our printing process. We also use reversible thermochromic pigment so that certain trading cards change color when heated to certain temperature and revert to the initial color once cooled down, generating funny visual effect in response to touch. In addition, we innovatively incorporate materials such as leather, metal, textile and embroidery into our trading cards. Our relentless focus on such details and craftsmanship not only gives our trading cards a premier appearance and tactile interaction, but also enhances their resistance to buckling, wear and tear, improving consumer experience. See "– Production and Procurement – Production – Equipment and Technology."

The craftsmanship of our trading cards is well-recognized by the market as evident at the 2023 DICE CON (亞洲桌遊展) where we were honored the Best Card Printing Craftsmanship Prize.

Appearance at lower temperature

Appearance at higher temperature

Foil stamping effect cards | 3D lenticular cards | Heat-responsive cards

Figures

Leveraging our know-how in offering IP-themed trading cards, we have extended our toy offerings to figures in 2023. We rolled out five series of figures in the nine months ended September 30, 2023. Our revenue generated from sales of figures was RMB80.1 million in the nine months ended September 30, 2023.

Our figures are recognized for their fine craftsmanship that captures and replicates the intricate details of IP characters' images. We also utilize a multitude of techniques such as electroplated metallic paint spraying for some of our figures, which confers a distinctive metallic gloss to our figures and significantly enhances their durability. Our figures typically range in size from 4.5 to 7 centimeters.

In addition to collectability, our figures also emphasize functionality and gameplay designs. For example, some of our figures were crafted from rubber materials, delivering practical values to consumers. We have also devised board role-playing game rules for certain figure series.

Kayou Sanguo figures

Other Toys

We have stayed attuned to emerging market trends to explore other toy categories. For example, we launched trading card collection books in 2018 and badges in 2021. We further broadened our toy offerings with stickers in 2022, and acrylic stands, fridge magnets and jigsaw puzzles in 2023. In 2021, 2022 and the nine months ended September 30, 2023, we rolled out 11, 22 and 51 series of other toys, respectively. Our revenue generated from sales of other toys was RMB128.8 million, RMB180.0 million and RMB62.6 million in 2021, 2022 and the nine months ended September 30, 2023, respectively.

Trading card collection books

Stickers

Badges

Acrylic stands

Jigsaw puzzles

Stationery Products

We branched out into stationery products in 2022. Our stationery offerings primarily consist of pens and notebooks. In 2022 and the nine months ended September 30, 2023, we rolled out six and 52 series of stationery products, respectively. Capitalizing on our expertise in pan-entertainment product development, we have successfully built up our stationery product mix with recognition. Our revenue generated from sales of stationery products was RMB20.9 million and RMB133.8 million in 2022 and the nine months ended September 30, 2023, respectively.

Pens

We primarily offer pens themed on renowned IPs such as Ultraman, Eggy Party, My Little Pony, Yeloli and Detective Conan. We attach great importance to the functional performance of our pens, and we are dedicated to providing a premium writing experience to consumers through distinctive product structure design and high-quality material selections. For example, we select high-hardness, wear-resistant tungsten carbide balls for our pen tips, ensuring that they glide smoothly on paper. Our pen refills are designed to support an approximately 700-meter-long line of writing, which is nearly twice of the length stipulated by national standards.

Yeloli pens

Detective Conan pens

Cherry Blossom pens

Notebooks

We primarily offer pan-entertainment notebooks with IP themes such as Ultraman, My Little Pony and Truffe Bear. Our portfolio is composed of notebooks in three sizes: A5, B5 and tag book measuring 135 millimeters by 75 millimeters that accommodate work and study scenarios. Our notebooks are distinguished by their covers designed with artistic styles suited to showcase the appealing attributes of the respective IPs. We also incorporated engaging elements into the inside pages design of our notebooks, such as the comic-book style layouts and the coloring graphics, to improve their appeal to consumers and set our products apart in the market.

Naruto notebooks

Eggy Party notebooks

Spring Day notebooks

Our Product Strategies

Our product strategies generally cover product category expansion, product series launch, product pricing and production. We tailor product strategies for each IP or product category. We typically evaluate and update our product strategies on an annual basis to optimize resource utilization for the forthcoming year. In addition, we maintain flexibility in our product strategies to adapt to the evolving market demand and seize emerging business opportunities. Set forth below are our main product strategies:

- ***Product Category Expansion Strategy***. We typically launch new product categories in alignment with our business development strategies. Our business development strategic focus is on diversifying our product categories to encompass a broader range of toy and stationery items. See "– Our Strategies – Expand Product Categories and Enrich Product Mix." We also have long-term development plans for existing product categories.

- ***Product Series Launch Strategy***. We routinely release new product series with differentiated functionality, IP themes and pricing under existing product categories to maintain the market momentum of our products. Our product series launch cycles are differentiated based on product categories and are generally guided by our IP operation plan, particularly taking into account the content launch plan of our IP partners. Specifically, (i) the product series launch cycle of our trading card products typically ranges from two to three months; and (ii) the product series launch cycle of our stationery products typically ranges from two to eight months. In 2021, 2022 and the nine months ended September 30, 2023, we rolled out (i) 143, 190 and 177 series of toys, respectively, including 132, 168 and 121 series of trading cards in the same respective periods; and (ii) nil, six and 52 series of stationery products, respectively. We also offer exclusive gift boxes for holidays and festivities to maximize our market potential.

- ***Product Pricing Strategy***. We deliver high-quality products at affordable price to broaden our consumer base. The typical suggested retail price per sales unit ranges from RMB1.0 to RMB99.0 for our trading cards, RMB10.0 to RMB25.0 for our figures, RMB5.0 to RMB70.0 for other toys, and RMB5.0 to RMB30.0 for stationery products.

- ***Production Strategy.*** We formulate and adjust the production plan for our products from time to time, taking into account market research results and recent sales performance and staying agile in response to changes in market demand. See "– Production and Procurement – Production – Production Planning."

OUR GAMIFICATION OPERATIONS

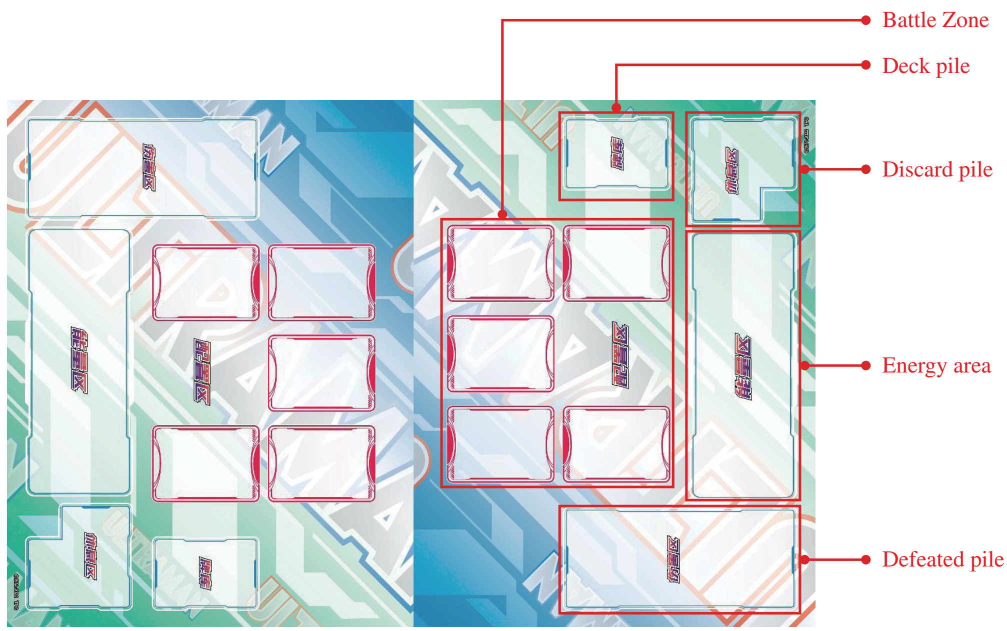
Through our distinct gamification operations which primarily comprise innovative gameplay design and TCG events, we have amplified our product values with cognitive development, fun and competition and have earned recognition from a broad spectrum of consumers.

Gameplay Design

Pan-entertainment products, particularly trading cards, intrinsically lend themselves to gamification. We have injected distinctive gameplay elements into our products to reinforce the collectability and playability of our products. For example, (i) we classify our products into rarities and have a full-fledged rarity system; (ii) we design product series themed on IPs with complete storylines and we portray the condensed stories across each product under such series; (iii) we incorporate puzzle elements into our trading card designs, and the artistically designed background of individual cards in a series can be connected to form a complete picture with visual appeal; and (iv) we offer transparent card sets with individual IP character cards and background cards, which allow consumers to match and overlap a character card with various background cards to create their customized trading card collection. Such approaches keep our collection system fresh and engaging. In addition, we elaborately devise gameplay rules for our products, such as trading cards and figures. The well-designed gameplay rules make our products one of the preferred choices for entertainment and social interactions that connect family members, friends and fellow gameplayers. We constantly innovate gameplay designs to continually bring excitement, novelty and fun to consumers to maintain the market momentum of our products.

Our efforts in gameplay design are particularly evidenced in our trading cards. Beyond the standard features of subject graphic, rarity symbols and description columns, our trading cards showcase segments that detail the subject character's gameplay elements. Set forth below is the sample layout of our trading cards:

We devise easy-to-understand rules for our Hero Battle TCG cards and enhance the playability for a broad spectrum of players. Our Hero Battle TCG is a turn-based card game with two players involved in one game. Generally, a player needs to have a card deck of 40 cards under one IP theme to start the game. We strive to maintain the balance of our game mechanics by managing the available card decks. Specifically, we implement rigorous control over the attribute value design, the product series launch cycle and the production volume of our cards with different rarities, aiming to increase fun and flexibility of the game. During the game, the two players strategically maneuver their card deck on a battlefield map to compete with each other. Players make their strategic decision on the battlefield based on the gameplay elements of each trading card on hand. Player can improve logical thinking and seek gratification through immersive and fun experience. Set forth below is a battlefield map of Hero Battle TCG:



Our Kayou Tribe (卡游部落) WeChat mini program provides a comprehensive introduction to the game rules of our Hero Battle TCG. Players can filter and search for specific trading card details by IP or card number. The Kayou Tribe WeChat mini program also showcases winning card decks from past TCG events, which serve as a valuable reference for players looking to build their own decks and enhance their competitive skills. See "– Consumer Engagement."

TCG Operations

We operate a comprehensive Hero Battle TCG event system spanning from local store-level events to national championships. The Hero Battle TCG is accessible for a diverse range of consumers categorized into groups based on age and proficiency. We host Hero Battle TCG tutorials and beginner-level events across our offline sales network, among other sites, ensuring that beginners are able to get frequent access to guidance and support. We also organize national Hero Battle TCG events for skillful game players. Our national Hero Battle TCG events have two divisions: one open to all age groups and one exclusively for the youth. We typically host events per month for both divisions across China. Over the years, the Hero Battle TCG has evolved to provide a platform for entertainment and social interaction, as well as a significant stage for skillful game players to showcase their proficiency and creativity. During the Track Record Period and up to the Latest Practicable Date, we had successfully held over 3,000 competitions across over 100 cities in China.

We utilize both online and offline channels to promote our Hero Battle TCG. Notably, our national Hero Battle TCG events are live streamed online, accompanied by professional commentary, sharing the fun with a wide range of audience. In addition, we have participated in offline industry exhibitions, such as the China International Toys and Educational Equipment Exhibition (Shanghai) (中國國際玩具及教育設備展覽會(上海)) and International Toys and Educational Products (Shenzhen) Exhibition (國際玩具及教育產品(深圳)展覽會), to showcase and promote our products. These exhibitions provide us with the opportunity to host live Hero Battle TCG activities and tutorials, further engaging with potential consumers. We had a dedicated team responsible for formulating systematic plans for hosting and promoting each event. Our effective promotion activities generate strong network effects and bolster our brand recognition.

PRODUCT DESIGN AND DEVELOPMENT

Based on in-depth understanding of each IP's distinct style and leveraging our strong product design and innovation capabilities, we have created products that capture the essence of each IP to bond with consumers.

Product Design and Development Process

Our efficient and quality-oriented product design and development enable us to earn trust of IP partners and attract consumers to passionately engage with our brand and products. We strategically source and develop high-quality IPs catering to a broad spectrum of consumers, inspiring innovation in our product design and development. We have streamlined product design and development process for our products. The design and development process of our products generally covers IP-tailored project plan, product design proposal and approval, artistic design, craftsmanship design and proofing:

- ***IP-tailored Project Plan***. Aligning with the content launch plan of the IP partners and the positioning of the IPs being developed, we make IP-tailored project plans mainly covering timeline for re-creation, product category to be developed and product development timeline. See "– IP Matrix and Operations – Our IP Operations – IP Development and Commercialization."

- ***Product Design Proposal and Approval***. Centering around the positioning of the IPs being developed, our product team generates product design proposals mainly covering the art design and craftsmanship design. We have a dedicated approval team in charge of evaluating and approving product design proposals, process of which typically involves (i) scrutinizing the product design proposals for aesthetic appeal and novelty value; and (ii) carefully examining the design elements to prevent potential IP infringement.

- ***Artistic Design***. For trading cards, our graphic designers submit batches of initial drafts for multiple rounds of review and selection for optimal presentation of IP themes. Our product team also designs the background, color palette and rendering to form an overall artistic design. For figures, other toys and stationery products, our in-house product team works on both the two-dimensional and three-dimensional artistic design. We strive to stay at the forefront of technological advancements. Our team has utilized intelligent tools such as AIGC to improve efficiency on basic tasks. In case of product development based on licensed IPs, IP partners typically review and provide feedbacks on the artistic design.

- ***Craftsmanship Design***. For trading cards, our product team works together with production team to decide on the craftsmanship and material to be used for the products. For figures, other toys and stationery products, our craftsmanship design process also involves the product structure and mold design. In case of product development based on licensed IP, IP partners typically review and provide feedbacks on the craftsmanship design to finalize the design draft.

- ***Proofing***. Our production team produces prototypes of the IP-themed products based on the final design draft for final review before mass production. In case of product development based on licensed IPs, IP partners also review and provide feedbacks on the prototypes.

Product Design and Development Team

Our product design and development is primarily handled by our dedicated in-house team recognized for their passion, creativity and capabilities in efficiently implementing our product strategies and promptly responding to market trends. For certain standard design and development work, we also engage independent third-party design service companies.

In-house Product Design and Development Team

Our product design and development is driven by multiple studios and a support team. Powered by this product design and development framework, we are able to ensure high product development efficiency and flexibility to timely seize market opportunities. The time needed from product design to product available for sale at end sales points can be as short as 20 to 30 days. Specifically, we had nine studios focusing on product design and development as of the Latest Practicable Date, composed of 270 talented individuals specializing in areas such as sketch painting, graphic design and 3D design. Driven by curiosity and enthusiasm for creation, our design and development team analyzes consumer preferences for constant launch of popular products. Striving to stay at the forefront of technological advancements, our team has also utilized intelligent tools such as AIGC to improve efficiency on basic tasks. In addition, we had a support team composed of more than 90 artistic design personnel as of the Latest Practicable Date, allowing flexible deployment to support the studios as needed.

Outsourced Product Design and Development

We engage independent third-party design service companies for certain standard design and development work, such as the coloring of certain IP characters and decoration elements. We believe that such outsourcing arrangements increase our product design and development efficiency, allowing our in-house product team to focus on more sophisticated and essential work. We select design service companies based on factors such as their service scope, service quality and capacity, price, experience and industry reputation. The design service companies are required to design and develop based on documents and materials provided by us, and we typically enter into non-disclosure agreements with design service companies in respect of these documents and materials. We then enter into outsourcing design agreements with design service companies to place orders. The design service companies are required to ensure that their work meets our requirements and relevant work is subject to our review. The IP rights relating to the work produced in outsourced product design and development, including all sketches, either belong to us or our IP partners, rather than the design service companies or their employees.

IP MATRIX AND OPERATIONS

We have curated a diverse IP matrix that caters to a broad spectrum of consumers. We have a proven track record of successful IP sourcing, development and commercialization. Our robust IP operation capabilities enable us to become a trustworthy and sophisticated go-to collaborator for IP partners.

Our IP Matrix

We strengthen our bond with consumers through high-quality IPs. We have been dedicated to building up a diverse IP matrix. Our IP matrix comprised 44 IPs as of September 30, 2023, encompassing well-known IPs such as Ultraman, Yeloli, The Land of Warriors animation, Eggy Party, Naruto, Detective Conan and Harry Potter. In addition, we have been investing in proprietary IP development to enhance our creation agility to timely identify and seize market opportunities. We launched products under our first proprietary IP, Kayou Sanguo, in April 2023.

We care about the positivity conveyed through our products and we have been exploring IPs with Chinese cultural value. For example, we licensed the artworks based on the Four Classics of Chinese Novels from renowned artist Mr. Dai Dunbang in January 2023. Our products themed on Kayou Sanguo launched in April 2023 infused Chinese traditional cultural content with young and creative expressions. We have also licensed well-recognized Chinese comics and animation IPs such as The Land of Warriors animation and The Legend of Qin to innovate in the consumption of Chinese cultural content. As such, our products not only resonate with consumers, but also foster cultural awareness.

The following table summarizes the details of our major IPs:

IP Name	IP Source	Major Product Types	Nature of Rights	Expiration Time for Major Product Types	Year of Relationship Commencement with the IP Partner
Ultraman	Licensed	Trading cards and stationery products	Rights for design and development, production, sales and marketing in mainland China	2029	2018
Yeloli	Licensed	Trading cards and stationery products	Rights for design and development, production, sales and marketing in mainland China	2033	2019
The Land of Warriors animation	Licensed	Trading cards	Rights for design and development, production, sales and marketing in mainland China	2025	2020
Eggy Party	Licensed	Trading cards and stationery products	Rights for design and development, production, sales and marketing in mainland China and Southeast Asia	2025	2019
Kayou Sanguo	Self-proprietary	Trading cards	N/A	N/A	N/A

We strategically expand the licensed territory of our IP matrix to pursue overseas expansion. The licensed territory of our certain popular licensed IPs had expanded to overseas markets such as Southeast Asia as of the Latest Practicable Date, paving the way for our overseas expansion. See "– Our Strategies – Proactively Pursue Overseas Expansion."

Our IP Operations

We have implemented systematic strategies across the entire value chain of IP operations, from IP sourcing, development to commercialization. Leveraging our valuable industry insights and capitalizing on our strong IP operation capabilities, impactful gamification operations and efficient multi-channel sales and marketing network, we can boost IP popularity, extend IP lifespan and maximize IP commercial value.

IP Sourcing Capabilities and Focus

Our attractiveness to IP partners lies in our values to them: (i) our product development team has deep understanding of the IPs and closely communicates with IP partners to ensure that our product designs stay authentic to the original concept of the IPs; (ii) our advanced production capabilities and supply chain management not only ensure superior product quality, but also stable and efficient supply of products catering to evolving market demand; and (iii) our impactful gamification operations and multi-channel sales and marketing network extend commercialization opportunities to IP partners and expand their audience base, promoting the inclusivity of art. Our proven track record of IP sourcing, development and commercialization solidifies our competitive edge in continuously identifying and capturing high-quality IP resources with strong potential. The number of IPs in our IP matrix increased from 24 as of December 31, 2021 to 30 as of December 31, 2022, and further to 44 as of September 30, 2023.

To timely identify IPs that align with our business development strategies, we have a dedicated IP team that closely monitors the industry environment and development, newly launched products and relevant IPs in the pan-entertainment industry and evolving consumer preference for IPs. Leveraging valuable industry insights, our IP team sets annual IP sourcing plans taking into account our IP operation performance in the past year, the capacity of our product team and sales team, our production planning and our overall business development strategies. We generally take into account below main factors when sourcing IPs:

- established fan base of the IPs;
- historical commercialization performance of the IPs;
- suitability for development into trading cards, figures, other toys or stationery products;
- abundance of existing content resources;

- existing products under the same IP;
- cultural and educational value; and
- relevance to trending topics.

IP Development and Commercialization

We have established a full-fledged IP operation pattern. The general process of our IP operations mainly covers:

- *Market Research Stage*: For licensed IPs, our IP team and sales team assess together the commercialization potential of the licensed IP, the possible category of trading cards, figures, other toys or stationery products that the licensed IP is suitable for development into, and the status of potential competing products. For proprietary IPs, our IP team and sales team research on the preferences of target consumers and determine the positioning of our proprietary IPs to be developed with reference to the existing IPs in the pan-entertainment industry and their popularity, market share and target consumers.

- *Project Plan Stage*: Our IP team, product team and sales team work together to generate project plans mainly covering (i) timeline for re-creation of a third-party IP or development of a proprietary IP; (ii) product category to be developed; (iii) product development timeline; (iv) sales and marketing strategies; and (v) expected sales volume and market share. For licensed IPs, our project plan particularly takes into account the content launch plan of our IP partners.

- *Project Execution Stage*: Our product team, IP team and production team work together to ensure that the product design and craftsmanship meet the requirements of IP partners. See "– Product Design and Development – Product Design and Development Process."

- *Product Sales and Extension Stage*: Our planning for product launch timeline takes into account the content launch plan of the IP partners as well as our business development plan. After product launch, our sales and marketing team formulate targeted marketing strategies to promote and stimulate sales of our products. We closely monitor the sales performance and effectively collect consumer feedback in preparation for optimizing the next product to be launched under the same IP, and we further expand the product category under the IP.

Collaboration with IP partners

We have forged deep collaborations with IP partners to enrich and diversify our product contents. During the Track Record Period, our IP partners primarily consisted of international and domestic entertainment companies, game companies, IP studios and renowned artists. Deeply rooted in the pan-entertainment product industry in China, we are a trustworthy and sophisticated go-to collaborator for IP partners looking for commercialization opportunities.

Case study – Ultraman: The long-running Ultraman franchise has continually expanded into a multitude of television series, movies, animation, comic books and other media publications over decades. In recognition of the potential of Ultra Hero characters, since 2018 when we licensed Ultraman IP and up to September 30, 2023, we had launched a total of 274 trading card series and 28 stationery series based on more than 50 Ultra Hero characters, propelling the ramp-up of enthusiasm for Ultraman.

Case study – Yeloli: Since 2019 when we licensed Yeloli IP and up to September 30, 2023, we had launched a total of 91 trading card series and two stationery series based on Yeloli characters. To develop products authentic to the original characters, we have analyzed and drawn inspirations from the abundant content resources of the Yeloli IP. We have tailored marketing strategies for Yeloli-themed products, integrating offline interactive events and live streaming promotions, and boosting the popularity of the Yeloli IP.

Benefiting from our strong IP operation capabilities, we typically negotiate on the renewal of our IP license agreements with IP partners three months prior to the termination of relevant agreements, and had not failed to renew any IP license agreements during the Track Record Period and up to the Latest Practicable Date. The salient terms of our typical IP license agreements with IP partners are set forth below:

i.	Duration and termination	The term of our agreements with IP partners generally ranges from one to ten years. The agreements are generally not automatically renewable. The agreements may generally be terminated by mutual consent. Either party is generally entitled to terminate the agreements in the event of the other party's material breaches.
ii.	Nature of rights	We generally have the rights, on either exclusive or non-exclusive basis, to use the licensed IPs for product design and development, production, sales and marketing in China during the license period, typically ranging from one to ten years. After the license period, we are allowed to sell the unsold products developed under the IPs typically within three months after the termination of the license, and we no longer have the right to sell any products developed under the IPs without prior consent of the IP partners thereafter.

iii.	IP rights	The IP rights of the licensed IPs are owned by the IP partners. The IP rights of the products that we design and develop under the IPs are generally owned by us.
iv.	Fee arrangement	We generally pay IP partners a one-time upfront payment, and typically pay royalties based on sales performance or production volume of the products developed under the IPs.
v.	Sub-licensing	We are typically not allowed for sub-licensing.
vi.	Liability	The IP partners shall indemnify us against any third-party claims regarding the infringement of IP rights relating to the licensed IPs. We are responsible for all product liabilities and after-sale customer services.

Development of proprietary IPs

Underpinned by our deep insights into consumer preferences, we develop proprietary IPs to strengthen our creation agility to timely identify and seize market opportunities.

Case study – Kayou Sanguo: Inspired by traditional Chinese culture, we launched products under our first proprietary IP, Kayou Sanguo, in April 2023. As of September 30, 2023, we had launched 12 trading card series and one figure series themed on Kayou Sanguo. Our products themed on Kayou Sanguo revitalize the Chinese traditional culture about the Three Kingdoms with young and creative expressions, promoting traditional culture while creating business growth opportunities. We capitalize on the widespread recognition of the Three Kingdoms culture in China and launched Kayou Sanguo products to extend reach to a broad spectrum of consumers from the youth to adults. The broad target consumer groups, coupled with the gameplay elements incorporated in the products, have made our products themed on Kayou Sanguo well received by consumers since its launch. As of September 30, 2023, the accumulative GMV of products themed on Kayou Sanguo reached over RMB110.0 million.

PRODUCTION AND PROCUREMENT

We had three production bases in operation and two production bases under construction as of the Latest Practicable Date. Strategically located in Zhejiang and Guangdong provinces with abundant consumer goods supply chain resources, our production bases can efficiently support our sales network nationwide. Our production base in Kaihua, Zhejiang commenced operation in August 2020 and primarily produces trading cards. Our production base in Yiwu, Zhejiang commenced operation in March 2023 and primarily produces stationery products. Our production base in Dongguan, Guangdong commenced operation in April 2023 and primarily packages figures.

In addition, we have collaborated with a number of OEM providers mainly for producing stationery products and figures. We plan to establish new production bases for major product categories to expand our in-house production capacity.

Production

Our comprehensive and advanced production is the bedrock of our business. Our advanced production technologies and scale production capabilities ensure the consistent high quality of our products and our agility to respond to evolving market demand.

Equipment and Technology

We strive to stay at the forefront of technological advancements in production. We constantly introduce advanced production equipment and optimize our production technologies to improve product quality and enhance production efficiency.

Our key equipment used in production includes printing equipment, die-cutting machines, injection molding machines, foil stamping machines, accessory assembly machines, card dispensers and packaging machines, among others. We have purchased advanced printing equipment from global-leading manufacturers and achieved world-class printing quality, speed and efficiency. We also invest in research and development of production devices to optimize our product quality and streamline the production process. We have utility model patents in China pertaining to the production devices, such as a unique card blanking knife tool.

We have stayed attuned to the latest production technological development globally. We collaborate with leading suppliers on raw materials development, technology innovation and equipment upgrades to continually improve the quality of our products. For example:

- In trading card production, (i) we apply lenticular printing technologies to generate 3D images or dynamic effects on trading cards; (ii) we utilize silk screen printing and hot foil stamping technologies to generate a metallic and shimmering effect and debossing and embossing texture on a wide range of printing materials; (iii) we apply platinum etching to create the embossing effects on our trading cards, enhancing the tactile and visual experience of consumers; (iv) we utilize holographic iridescent technology to create dynamic patterns and a sense of depth on the flat surface of trading cards; and (v) we adopt structured light pattern technology to present more than 300 types of exquisite textures on the surface of the trading cards through embossing or varnishing. Our advanced printing technologies are widely recognized, as evident at the 2023 DICE CON where we were honored the Best Card Printing Craftsmanship Prize.

- In stationery production, (i) we have innovatively improved the thermal transfer printing process of silk precursor ink through consolidating multiple steps into the single pass graphic printing completed by a gravure printing machine, significantly shortening the production time; (ii) we utilize color-changing transfer technology that enables the pen barrel to clearly display two colors under different light conditions; and (iii) we apply positioning laser technology to generate non-cyclic positioning laser patterns or embossing effects on smooth plastic barrels.

- We have employed industry-leading anti-counterfeiting techniques, according to CIC, adding anti-counterfeit labels to a selection of our rare products.

We precisely manage our product line by implementing digital control over production parameters and monitoring product data. We consistently enhance the automation and digitalization of our production process through upgrades to our key equipment and devices involved in boxing, card dispensing and packaging. For example, (i) we have customized the card dispensers that can automatically group trading cards of varied rarities and report any identified errors; and (ii) we have developed the first automated trading card packaging product line in China that connects card dispensers with robotic arms, according to CIC, to realize automated packaging and enhance operational efficiency.

Production Process

We have set streamlined production processes to ensure the production efficiency and quality of our major products.

Our main production processes for trading cards is illustrated as below:

Pre-printing Preparation → BOM Creation → Printing → Backend Processing → Packaging

- *Pre-printing Preparation.* Prepare and generate the proofing files for computer-to-plate printing.

- *BOM Creation.* Create BOM to archive product craftsmanship, materials to be used and production standards and schedule the production.

- *Printing.* Produce the trading cards according to production requirements, including processes such as offset printing and cold foil stamping, color printing, reverse printing and glazing.

- *Backend Processing.* Perform post-printing processes such as die-cutting, hot foil stamping, jet ink printing, cold migration, silk screen printing and card slitting.

- *Packaging.* Group and package the semi-finished products after backend processing.

The production process for figures mainly includes (i) the production of three-dimensional modules, which typically includes three-dimensional printing material selection, mold making, coloring and injection molding; (ii) the production of two-dimensional packaging materials; and (iii) assembly.

The production process for pens mainly includes module inspection, injection molding, transfer and pad printing, refill production, assembly, inspection and packaging. We inspect the modules such as pen clips and springs, and produce modules such as barrels through injection molding. We then process our modules through transfer and pad printing before getting them assembled. The finished products go through overall quality inspection before packaging and delivery.

The production process for notebooks mainly includes platemaking, raw material inspection, offset printing, folding, flexographic printing, labeling and plastic sealing, collating and packaging.

Production Capacity

Our scale production capability enables us to effectively respond to market demand and achieve economies of scale. We had three production bases located in Kaihua and Yiwu, Zhejiang and Dongguan, Guangdong as of the Latest Practicable Date. The following table sets forth the details of our production bases:

Production Base	Primary Function	Commencement Time	Approximate GFA	Number of Production Lines as of September 30, 2023
			(sq.m.)	
Kaihua Production Base	Trading card production	August 2020	87,789.3	16
Yiwu Production Base	Stationery production	March 2023	15,060.0	2
Dongguan Production Base	Packaging	April 2023	9,800.0	3

The following table sets forth the details of our major in-house production lines for the periods indicated:

	Year ended December 31,						Nine months ended September 30,		
	2021			2022			2023		
	Production Capacity(1)	Actual Production Volume	Utilization Rate(2)	Production Capacity(1)	Actual Production Volume	Utilization Rate(2)	Production Capacity(1)	Actual Production Volume	Utilization Rate(2)
	(production unit in thousands)(3)		*(%)*	*(production unit in thousands)(3)*		*(%)*	*(production unit in thousands)(3)*		*(%)*
Trading cards (Kaihua Production Base)(4)	2,049.2	1,396.0	68.1	2,939.4	2,314.4	78.7	2,114.9	1,109.9	52.5
Stationery products (Yiwu Production Base)	–	–	–	–	–	–	24.4	13.4	54.7

Notes:

(1) The production capacity for the period equals the monthly production capacity multiplied by the number of months the relevant production lines were operational after commencement during the same period. Specifically, the trading card production lines commenced operation in August 2020, the notebook production lines commenced operation in March 2023, and the pen production lines commenced operation in July 2023. The monthly production capacity is calculated based on the following assumptions: (i) the production lines are functioning at their full capacity; (ii) the production bases operate 10 hours per day for trading cards and stationery products; and (iii) the production bases operate 26 days per month.

(2) The utilization rate equals the actual production volume during the period divided by the production capacity for the same period.

(3) The number of sales units contained in each production unit depends on the specifications of each product category.

(4) The utilization rate of our production lines for trading cards increased from 2021 to 2022, primarily due to the increase in actual production volume corresponding to increased sales volume. The utilization rate of our production lines for trading cards was relatively low in the nine months ended September 30, 2023, corresponding to the relatively low sales volume in the nine months ended September 30, 2023.

Production Planning

We conduct a rolling production forecast and strive to achieve a balance between production and sales. Our production team works closely with our product and sales team to formulate and adjust production plans from time to time, taking into account market research results and recent sales performance. Underpinned by our production infrastructure, we can deliver new product series in as short as two weeks and replenish existing product series in as short as approximately five days. Such production capabilities mitigate the risk of overproduction in advance and ensure our agility to respond to evolving market demand.

OEM Production

During the Track Record Period, we collaborated with several OEM providers for producing stationery products such as pens and notebooks as well as figures. We utilized the OEM services primarily to (i) increase production volume of newly launched product categories for which we typically have limited in-house production capacities at the initial product launch stage; and (ii) ease the short-term pressure of in-house production when market demand for our products temporarily exceeds our in-house production volume in peak seasons. We carefully take into account factors such as price, quality, production capacity, delivery scheme, geographical position, financial condition and reputation in selecting OEM providers. We implement rigorous measures to manage and monitor the performance of OEM providers and request OEM providers to comply with our internal guidelines and policies during the production process. Products and components produced by our OEM providers are subject to two rounds of quality inspection, first by the OEM providers and subsequently by our quality control team, to guarantee consistent product quality.

The following table sets forth the production volume of major products attributed to OEM production for the periods indicated:

	Year ended December 31,		**Nine months ended September 30,**
	2021	**2022**	**2023**
	(production unit in thousands)		
Stationery products	–	25.4	114.4
Figures	–	–	73.8

Production Expansion Plan

We plan to establish new production bases or upgrade our existing production capacity for major product categories. We had two production bases under construction in Yiwu, Zhejiang as of the Latest Practicable Date. We also intend to upgrade our existing production capacity and improve our technology and intelligence capabilities. We anticipate that we could further enhance our product supply stability and benefit more from economies of scale.

The following table sets forth the details of our major production bases under construction as of the Latest Practicable Date:

Location	Primary Products	Estimated Year of Completion	Approximate GFA	Annual Production Capacity	Estimated Investment
			(sq.m.)	*(production unit in thousands)*	*(RMB in millions)*
Yiwu	Toys and stationery products	2024	57,000.0	300.0	470.0
Yiwu	Stationery products	2025	147,416.0	3,000.0	1,920.0

Procurement

The raw materials used in our production primarily include paper and ink. For packaging, we mainly use materials such as aluminum foil and cardboard boxes. We procure raw materials and packaging materials from large-scale third-party suppliers in China. We also procure certain semi-finished products for production. We typically enter into one-year framework procurement agreements with our suppliers to secure stable supply and mitigate the risks of price fluctuation, see "– Our Suppliers." Based on current and expected market conditions, we estimate the quantity of raw materials and packaging materials to be procured and send the purchase orders to our suppliers with purchase volume and price. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material shortages, delays or price fluctuations in raw material and packaging material procurement.

We have rigorous processes for supplier selection, evaluation and management to ensure that all suppliers meet our quality standards. Potential suppliers are required to pass comprehensive admission evaluations before being placed on our qualified suppliers list. To qualify, suppliers must satisfy a series of standards with respect to reputation, certification and qualification. We also conduct regular performance evaluation on existing suppliers in aspects including their product quality, delivery schedule, after-sale service and pricing, and terminate our relationship with suppliers who do not meet our internal standards. In addition, we require the suppliers to submit quality inspection reports on a monthly basis and conduct on-site inspections at our suppliers' production bases from time to time. We have formulated comprehensive policies on supply chain management and carefully inspect procured materials to prevent the use of inferior materials in production.

SALES NETWORK AND MARKETING

We have a nationwide sales network consisting of (i) distributor channels; (ii) direct sales channels; and (iii) retail channels. We generally stay at the forefront of sales channel evolution and strategically position ourselves to be prominent in the channels where consumers choose to shop. We strategically set differentiated development focus for the three channels:

- For distributor channels, we focus on maintaining stable relationships with distributors nationwide to ensure our broad geographical coverage and deep penetration in regional markets. We had 230 distributors in 31 provinces in China as of September 30, 2023;

- For direct sales channels, we mainly operate offline Kayou flagship stores to directly interact with consumers and promote our brand recognition, and we also have offline vending machines to offer unique purchase experience. In addition, we have broadened our online presence through online self-operated stores on e-commerce platforms and other online sales channels so that we can seize new retail opportunities. We had 31 offline Kayou flagship stores in 17 provinces in China, and 11 online self-operated stores as of September 30, 2023; and

- For retail channels, (i) we mainly cooperate with reputable retail KA partners in China to reach a broader consumer base and increase the accessibility of our products, and we had 34 retail KA partners as of September 30, 2023; and (ii) we diversify our sales channels through Kayou Centers operated by franchisees, and we had 25 Kayou Centers as of September 30, 2023.

We believe that our sales channels generate strong synergies and enable us to effectively expand consumer reach and accumulate consumer insights.

The following table sets forth our revenue by sales channel for the periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2021		2022		2022		2023	
	(RMB in millions)	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*
					(Unaudited)			
Distributor channels	2,225.0	96.8	3,826.9	92.7	3,405.2	93.3	1,585.0	81.2
Direct sales channels	17.6	0.8	215.8	5.2	180.1	4.9	191.4	9.8
Retail channels	55.7	2.4	88.4	2.1	66.8	1.8	175.1	9.0
Total	2,298.3	100.0	4,131.1	100.0	3,652.1	100.0	1,951.5	100.0

Distributor Channels

We have been cultivating a robust nationwide distributor network and have accumulated regional distribution resources. We had 230 distributors in 31 provinces as of September 30, 2023. Our distributors are typically regional distributors primarily involved in the sales and distribution of toy and stationery products with well-established local distributor network. A majority of our sales came from distributor channels during the Track Record Period. We generated revenue from distributor channels of RMB2,225.0 million, RMB3,826.9 million and RMB1,585.0 million in 2021, 2022 and the nine months ended September 30, 2023, respectively, representing 96.8%, 92.7% and 81.2% of our total revenue during the same respective periods. The percentage of the revenue contribution from distributor channels decreased during the Track Record Period as we were actively exploring and seizing opportunities in other online and offline sales channels.

The table below sets forth the movements in the number of our distributors for the periods indicated:

	Year ended December 31,		Nine months ended September 30,
	2021	**2022**	**2023**
Number of distributors at the beginning of the period	232	326	290
Number of new distributors[(1)] for the period	192	83	11
Number of terminated distributors[(2)] for the period	98	119	71
Net increase/(decrease) in the number of distributors for the period	94	(36)	(60)
Number of distributors at the end of the period	326	290	230

Notes:

(1) New distributors refer to distributors that placed their order with us in a given year or period and did not purchase our products in the previous year.

(2) Terminated distributors refer to distributors that did not purchase our products for a given year or period.

We have been continuously optimizing and upgrading our distributor network. In 2021, 2022 and the nine months ended September 30, 2023, we terminated cooperation with 98, 119 and 71 distributors, respectively. We made the decisions for such termination mainly taking into account (i) whether the operation of the distributors met the expectation and design of our evolving regional development strategies; (ii) whether the growth potential of the distributors met our increasing needs for deepened and quality collaboration; (iii) whether the distributors kept up with our continuous upgrade of brand image and their contribution to our brand recognition; and (iv) whether the staffing of the distributors satisfied our expectation for service quality and sales efforts.

Distributor Selection. We select distributors carefully and mainly collaborate with distributors with strong local resources. We have a dedicated team taking charge of distributor assessment before engagement. The rigorous distributor assessment generally takes three months and covers aspects including the distributor's scale of operations, qualifications, geographical base, sales point coverage, existing customer base, warehousing capacity, logistics capability, available financial resources, market reputation, credit worthiness and competitiveness in the local market. After engagement, we reassess the suitability of the distributor from time to time to check whether its operation and performance still meets our mutual development needs.

Distributor Collaboration. Leveraging our professional service personnel and information systems, we offer comprehensive support to our distributors in various aspects such as product information training, inventory management, consumer marketing and sales performance analysis. These support initiatives are designed to strengthen our relationship with distributors, enhance the overall performance and service quality of our distributor network, as well as strengthen our control over such network. In addition, we generally host distributor meetings semi-annually, on which we introduce our business development strategies, launch new products and deliver training to distributors, deepening our partnership with distributors and fostering a mutual understanding of strategic goals.

Distributor Management. We maintain a buyer-seller relationship with our distributors. To manage our distributor network, we have set comprehensive policies mainly covering:

- *Pricing Management*: We furnish guidelines to control the pricing of our products. In the event of non-compliance with our pricing guidelines, we reserve the right to terminate our relationship with the non-compliant distributors and hold them liable for breach of contracts.

- *Channel Stuffing Risk Management*: To mitigate our channel stuffing risks, (i) we implement effective inventory management policies. For example, we generally require our distributors to scan the QR codes on the external packaging during their inventory in-and-out process, which enables us to gradually establish a mechanism to track their inventory level and turnover rates. We generally check the inventory status with the distributors from time to time, ensuring that the distributors maintain an optimal inventory level that are commensurate with market demand; (ii) we generally require full payment from distributors before product delivery; and (iii) we generally do not allow product return from distributors to the extent compliant with applicable laws and regulations. We believe that the risk of channel stuffing is low in our distributor network.

- *Anti-cannibalization*: We manage cannibalization risks among distributors by specifying the products to be distributed and the geographical regions for which a distributor is responsible for in the agreement. We prohibit distributors from selling products outside the respective designated geographical regions without prior written consent from us.

- *Sub-distribution*: When some of our distributors are not able to directly cover the remote markets in their authorized geographical regions, they may sell our products to sub-distributors. In general, we do not enter into agreements with such sub-distributors, thus having no control over their sales activities. According to CIC, this is a common industry practice in the pan-entertainment product industry. We typically request our distributors to manage their sub-distributors, including ensuring that the operations of the sub-distributors are in line with our overall distribution strategies. Distributors are typically liable to us for any violation or misconduct by sub-distributors.

- *Online Distribution Management*: We maintain stringent control over online distributor channels. Distributors are required to obtain approval from us before commencing online operations. As of September 30, 2023, we had over 20 distributors with online distribution.

We generally enter into standard distribution agreements with our distributors. The salient terms of the standard distribution agreements are set forth below:

i.	Duration and termination	The term of our agreements with distributors is generally one year. The agreements are generally not automatically renewable. The agreements may generally be terminated by mutual consent.
ii.	Payment	We generally require full payment from distributors before product delivery.
iii.	Sales and pricing policies	We generally provide pricing guidelines for distributors to obey. We are entitled to adjust the pricing guidelines.
iv.	Minimum purchase amount	We generally do not set minimum purchase requirements for distributors.

v.	Risk allocation	The risk of damage and obsolescence is generally on the distributors after our products are picked up by third-party logistics service providers.
vi.	Product return	We generally do not allow product return from distributors to the extent compliant with applicable laws and regulations.

One of our distributors, Zhejiang Qiyi Information Technology Co., Ltd. (浙江齊藝信息科技有限公司) which is an associate of Mr. Qi Min, was our connected person during the Track Record Period. See "Connected Transactions – Non-exempt Continuing Connected Transactions – Distribution and Franchise Framework Agreement." In addition, one of our distributors in 2021 and 2022, Beetles (Shanghai) Network Technology Co., Ltd. (甲殼蟲（上海）網絡科技有限公司), was our related party. See Note 35 of Appendix I to this Document. Our arrangements with Zhejiang Qiyi Information Technology Co., Ltd. and Beetles (Shanghai) Network Technology Co., Ltd. were agreed on a fair and reasonable basis after arm's length negotiation between the parties, and were comparable to those offered to distributors who are Independent Third Parties with similar market positions that distribute similar volumes of products. Save for Zhejiang Qiyi Information Technology Co., Ltd. and Beetles (Shanghai) Network Technology Co., Ltd., to our knowledge, all our distributors were Independent Third Parties during the Track Record Period. We have implemented the same service guidelines and policies over all of our distributors.

Direct Sales Channels

We have built a direct sales network that integrates offline and online sales channels to directly interact with consumers and promote our brand recognition. We can collect valuable first-hand consumer review, aiding the continuous optimization of our product design, marketing strategies and sales channel operations. We generated revenue from direct sales channels of RMB17.6 million, RMB215.8 million and RMB191.4 million in 2021, 2022 and the nine months ended September 30, 2023, respectively, representing 0.8%, 5.2% and 9.8% of our total revenue during the same respective periods.

Offline Self-operated Sales Points

We actively engage with consumers in our offline Kayou flagship stores. We have also been selling through vending machines to expand purchase scenarios.

Offline Flagship Stores

Committed to encouraging face-to-face social interactions of our consumers, we have been cultivating a quality offline flagship store network that functions for product sales and TCG event operations. The number of our offline flagship stores increased from 14 as of December 31, 2021 to 30 as of December 31, 2022, and further to 31 as of September 30, 2023. As of September 30, 2023, we had offline Kayou flagship stores in 17 provinces in China.

Functional divisions and consumer experience. We strive to establish our offline Kayou flagship stores for one-stop entertainment destinations for shopping and social interaction experience. Our offline Kayou flagship stores typically have distinct functional divisions such as sales areas, TCG zones and social engagement spaces.

- *Sales*: We prominently display products that cater to consumer preferences and purchasing habits. We provide shopping companions for our consumers that enable them to make informed purchases either for themselves, their friends or children. We also encourage consumers to make rational purchasing decisions.

- *TCG events*: We host Hero Battle TCG tutorials and beginner-level events at our flagship stores, allowing consumers to experience the fun of TCG. Consumers can improve logical thinking through strategic games and increase face-to-face interactions, gaining us recognition from consumers. See "– Our Gamification Operations – TCG Operations."

- *Social engagement*: We have dedicated spaces within our flagship stores for consumer interactions, including sharing and exchanging collections with each other.

Procedures of opening new offline flagship stores. The procedure of opening new offline flagship stores mainly includes project planning, site selection, decoration and operation initiation. We formulate an annual expansion plan for our flagship store network and maintain a list of potential sites for future offline flagship stores.

Site selection. Site selection is critical to the success of our offline flagship stores. We strategically situate our offline flagship stores at shopping centers within core commercial zones. We typically take into account factors such as the population density and consumption level of surrounding communities, the consumer traffic conditions, parking spaces and the demographic profile of the shopping center's customers in site collection. For example, family-centric shopping centers are a common choice for us.

Daily operation and marketing. We implement uniform procedures and management systems across all of our offline flagship stores. For example, we require each Kayou flagship store to strictly obey our policies to foster rational consumption. Each offline flagship store generally has three to four full-time salesclerks. These flagship stores serve as crucial hubs for offline marketing. For example, each offline flagship store is responsible for cultivating relationships with local consumers and generally builds up a local consumer community to promote the popularity of pan-entertainment culture and our products.

Vending Machines

Our vending machines offer unique purchase experience to consumers. Our vending machines are strategically located across China, with a total of 526 machines in operation as of September 30, 2023. A majority of our vending machines are typically adjacent to our Kayou flagship stores, our KA partners' offline stores and Kayou Centers. We increasingly focus on deploying our vending machines at other high-traffic sites such as amusement parks.

Our machines primarily dispense popular trading cards to enhance the consumer experience and drive traffic to our offline sales network. Each machine has the capacity to store up to 600 packs of cards. We regularly check on the vending machines and refresh the card packs for each machine. We are committed to continuously upgrading our vending machines to enhance their visual appeal and function.

Online Self-operated Stores

Adapting to evolving consumption habits, we have been exploring diverse online sales channels to seize new retail opportunities. We have online self-operated stores on multiple e-commerce platforms in China, mainly including Tmall, JD and Pinduoduo. We have also been actively seeking sales opportunities on other online sales channels, mainly including WeChat mini program, Douyin and Bilibili. Our online self-operated stores offer our products in conjunction with detailed production descriptions, illustrative images and promotional videos. These online self-operated stores and channels not only constitute one of our important sales channels, but also serve as a strategic showcase platform for our brand and products. We had six, seven and 11 online self-operated stores as of December 31, 2021, 2022 and September 30, 2023, respectively.

We tailor our online sales strategies and methods based on the consumption habits unique to each online platform. For example, we have established official live-streaming sales channels on Douyin and Tmall. Additionally, acknowledging the preferences of Bilibili's user base towards products themed on animation and manga, we have strategically increased the visibility of relevant products on Bilibili.

Retail Channels

We have successfully expanded our presence in retail channels to reach a broader consumer base and increase the accessibility of our products. We generated revenue from retail channels of RMB55.7 million, RMB88.4 million and RMB175.1 million in 2021, 2022 and the nine months ended September 30, 2023, respectively, representing 2.4%, 2.1% and 9.0% of our total revenue during the same respective periods.

KA Channels

We mainly cooperate with reputable retail KA partners in China, and we believe that the presence of our products at the well-known supermarkets, other retail stores and e-commerce platforms can enhance our brand exposure. Leveraging our experienced distributor network operations and popular product offerings, we earn preference from an increasing number of KA partners. We had four, 22 and 34 retail KA partners as of December 31, 2021, 2022 and September 30, 2023, respectively.

The salient terms of our standard agreements with KA partners are set forth below:

i.	Duration and termination	The term of our agreements with KA partners is generally one year. The agreements are generally not automatically renewable, but may be renewed upon negotiation between both parties one month prior to the termination of the agreements. The agreements may generally be terminated by mutual consent. Either party is generally entitled to terminate the agreements in the event of the other party's material breaches.

ii.	Payment	We generally deliver products before receiving payments from KA partners. E-commerce platforms typically periodically settle payments with us. We generally grant a credit period within 60 days to our KA partners.
iii.	Sales and pricing policies	We generally provide pricing guidelines, and KA partners shall only sell at the uniform retail prices as set forth in the pricing guidelines. We are entitled to adjust the pricing guidelines.
iv.	Minimum purchase amount	We generally do not set minimum purchase requirements for KA partners.
v.	Risk allocation	When products are delivered using third-party logistics service providers that are engaged by us, the risk of damage and obsolescence is on the KA partners (i) generally after they complete the inspection and confirm receipt of our products; or (ii) to a lesser extent, after our products are picked up by third-party logistics service providers. With respect to our arrangement with certain e-commerce platforms, the risk of damage and obsolescence is on the e-commerce platforms after the end consumers confirm receipt of our products.
vi.	Product return and unsold inventory	We generally do not allow product return from KA partners to the extent compliant with applicable laws and regulations. With respect to our arrangement with a e-commerce platform, we are required to deliver products to the e-commerce platform's warehouses as requested, and the title to the products remains with us until the receipt of products by consumers. The e-commerce platform can send back unsold products to us from their warehouses. During such sending back process, the title to the products remain with us. In addition, in the case where consumers are allowed to return or exchange the unopened products in seven days in accordance with certain e-commerce platforms' policies, we allow such return.

To our knowledge, during the Track Record Period, all our retail KA partners were Independent Third Parties.

Kayou Centers

We started the operation of Kayou Centers to diversify our sales channels in 2023. We engage franchisees to operate Kayou Centers. Kayou Centers are generally small-sized retail stores across China. We generally cooperate with franchisees that have retail sales experience, store operation and management experience, financial resources and knowledge about Kayou products. Kayou Centers build up our regional competitive advantages and increase our presence in local markets through standardized chain operations. There were 25 Kayou Centers as of September 30, 2023.

Franchisees are responsible for the daily operations of Kayou Centers. Each Kayou Center needs to comply with our standardized guidelines for store layout design and decoration, shelf display, product pricing, inventory management, finance management and human resource management. We also require each Kayou Center to strictly obey our policies to foster rational consumption. To promote the performance of Kayou Centers, we provide support mainly in terms of store site selection, store decoration, product knowledge training, marketing and branding.

We generally enter into standard agreements for Kayou Centers. The salient terms of our standard agreements with franchisees are set forth below:

i.	Duration	The term of our agreements is generally three years. The agreements are generally not automatically renewable, but may be renewed by negotiation between both parties.
ii.	Payment	We generally require our full payment from franchisees before product delivery.
iii.	Sales and pricing policies	We generally provide pricing guidelines, and franchisees shall only sell at the uniform retail prices as set forth in the pricing guidelines. We are entitled to adjust the pricing guidelines.
iv.	Sales and performance target	We generally do not set sales target for Kayou Centers.
v.	Risk allocation	The risk of damage and obsolescence is generally on the franchisees after they complete the inspection and confirm receipt of our products.
vi.	Product return and refund	We generally do not allow product return or refund from franchisees, and product exchanges are allowed for defective products only.

Save for Yiwu Qiqian Toy Store (義烏市齊茜玩具商行) which is an associate of Mr. Qi Min, to our knowledge, during the Track Record Period, all our franchisees under Kayou Center operations were Independent Third Parties. See "Connected Transactions – Non-exempt Continuing Connected Transactions – Distribution and Franchise Framework Agreement."

Coordination Among Sales Channels

We manage our operations across all sales channels at our Company level to optimize resource allocation across sales channels and prevent cannibalization. Specifically:

- ***Coordination between Online and Offline Sales Channels***: We strategically differentiate our online sales channels from offline sales channels to cater to distinct consumption scenarios. Our online sales channels can reach a more diverse consumer base across a broader retail market, serving as a valuable supplement to our offline sales network. To prevent any undue competition arising from price discrepancies across channels, we also implement uniform pricing guidelines to ensure the same retail prices for identical products across all channels.

- ***Coordination within Offline Sales Channels***: We implement a rigorous regional delineation for our distributors' and KA partners' offline sales, prohibiting offline distributors and KA partners from selling products outside their respective designated geographical regions. We also maintain close communication with our distributors and KA partners regarding site selection for our offline Kayou flagship stores and Kayou Centers to avoid cannibalization. Unlike our distributors and KA partners who typically have a broad sales region, our offline Kayou flagship stores and Kayou Centers only operate in several selected cities, serving as operating entities to further enhance consumer experience. Rather than resulting in cross-channel competition, the promotional effects of our offline Kayou flagship stores and Kayou Centers can boost the sales of our distributors and KA partners and promote mutual growth across sales channels.

- ***Coordination within Online Sales Channels***: We sell our products through multiple online sales channels. We tailor our online sales strategies and methods based on the consumption habits unique to each platform. The differentiated consumer demographic and sales strategies across online sales channels are able to prevent cross-channel competition online.

CONSUMER ENGAGEMENT

We are committed to providing high-quality consumer services that are commensurate with the high level of consumer satisfaction we seek to deliver with our products. We have an attentive consumer service team that stays responsive to consumers' requests and feedback. We actively seek consumer feedback and address complaints through multiple channels such as the offline stores, consumer service hotlines, online e-commerce platforms and WeChat mini program. Our consumer service team keeps records of inquiries, feedback and complaints, as well as the results of any investigations or resolution measures in these regards. Through regular analysis of the collected information, we constantly refine our products and improve our consumer service quality.

To improve consumer experience, we operate Kayou News (卡游情報) WeChat Official Account that provides useful information to consumers, such as pre-sale announcement for new product series and marketing activity updates. In addition, consumers can access our Kayou Tribe WeChat mini program through the Kayou News, where they can view the introduction to game rules of our Hero Battle TCG and TCG event schedule. We also have a card gallery that showcases our trading cards on Kayou Tribe, enabling consumers to filter and search for specific trading card details by IP or card number. Set forth below are the user interfaces of our Kayou Tribe WeChat mini program:

We sell certain products in blind boxes. Consumers are clearly informed of the composition of product pool and the probability of obtaining a specific random product from a blind box, but not the actual content of the particular blind boxes they purchase, which contributes to the fun experience. Our consumer protection efforts primarily include that (i) we use plain and accurate language on the packaging of our products to mitigate the risks of misunderstanding; and (ii) we have formulated and implemented policies to foster rational consumption.

Other than defective products, we generally do not accept product returns. Once our products are sold to consumers, we accept product exchange within 15 days of purchase for defective products.

During the Track Record Period and up to the Latest Practicable Date, we had not received any customer complaints, product exchanges or product liability claims that materially and adversely affected our operations or business reputation.

INVENTORY MANAGEMENT, WAREHOUSING AND LOGISTICS

Our successful business operations are backboned by our comprehensive inventory management, warehousing and logistics system.

Inventory Management

Our inventories mainly include raw materials, finished goods and work in progress. See "Financial Information – Discussion of Selected Items from the Consolidated Statements of Financial Position – Inventories." We have implemented stringent inventory management measures to maintain an optimal level of stock. Our raw material procurement is based on sales forecast provided by our sales team on a rolling basis, based on which our procurement team assesses the inventory level and adjusts procurement plans accordingly. We set inventory turnover rate management indicators for each category of products. We routinely monitor our inventory turnover ratios to assess the efficiency of our inventory management, according to which we are able to eliminate excess and obsolete inventory. During the Track Record Period, our inventory turnover rate maintained at a reasonable level as a result of precise management over inventory.

Warehousing

We lease one property to operate our logistics center in Yiwu, Zhejiang, one of the world's largest small commodities markets known for well-developed logistics infrastructure and cost-effective operations. Our finished products are transported to the logistics center in Yiwu for further delivery. The advantageous location of our logistics center enables us to promptly respond to demand across China.

Logistics

We engaged independent third-party logistics service providers to transport our products from production bases to the logistics center, and from the logistics center to customers during the Track Record Period. We select logistics service providers based on their reputation, scale of operations, track record and price. We typically enter into one-year framework logistics agreements with our logistics service providers. Our logistics service providers are generally required to purchase compulsory insurance for the vehicles. We assess our logistics service providers based on delivery performance, transportation capability and overall service quality.

We are committed to building a smart warehousing and logistics system that allows for automatic synchronization with the order management system of our supply chain, which is also linked with the order receiving systems of our logistics service providers. In conjunction with the warehousing and logistics system, we have deployed a radio frequency identification system for shipment and inventory checking. These digitalization initiatives allow us to digitally monitor and trace our products on the way. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any logistics issues that may have material and adverse effects on our business operations.

QUALITY CONTROL

Our commitment to product quality and reliability is a key driver of our success. Our products undergo a rigorous quality control process spanning across procurement, production, finished product inspection and product certification.

- **Procurement.** We purchase raw materials, packaging materials and semi-finished products for production from selected suppliers who have passed our qualification assessment and carefully procured materials to prevent the use of inferior materials in production. See "– Production and Procurement – Procurement." In addition, we also engage third-party design service companies and OEM providers to assist with our product design and production. We have formulated stringent quality control measures to manage the service quality of these service providers. For example, the design service companies are required to ensure that their work meets our requirements and relevant work is subject to our review. We also request OEM providers to comply with our internal guidelines and implement quality inspection on products and components produced by them. See "– Product Design and Development – Product Design and Development Team – Outsourced Product Design and Development" and "– Production and Procurement – Production – OEM Production."

- **Production.** We conduct quality control for all key stages throughout the production process to ensure that the product quality satisfies the national mandatory standards and our internal standards. We require our personnel involved in production activities to follow our quality guidance and use our production equipment in strict compliance with the respective user guidelines. In addition, we regularly inspect and maintain the production equipment, and replace worn consumable parts and components to ensure production safety and product quality.

- **Finished Product Inspection.** We adopt strict measures for finished product inspection to identify and eliminate any defective items, thereby securing our superior product quality. Our quality control personnel are responsible for sampling checks over finished products, and any defective items identified are marked and processed in accordance with our internal policies on defective product classification and disposal. We have also established an inspection center recognized as an accredited lab by the China National Accreditation Service for Conformity Assessment. Our inspection center inspects finished products before shipment to ensure compliance with the relevant requirements under safety national standards and our internal quality standards.

- **Product Certification.** We have obtained multiple quality control certifications for our product management system and proactively propelled the development of industry standards. Specifically, our products have obtained ISO9001 quality management system certification, ISO14001 environment management system certification and ISO45001 occupational health and safety management system certification. We also actively participated in the drafting of national and local standards on safety quality requirements for trading cards. In 2023, one of our employees became a member of the National Toy Standardization Technical Committee (SAC/TC253).

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

We consider environmental, social and corporate governance ("ESG") matters as an integral part of our operations. In line with our core value of being a socially responsible company, we resolutely raise environmental awareness and promote long-term sustainable development.

We have established robust and comprehensive ESG governance framework and policies. The Board of Directors, as the highest layer of responsibility, assumes full responsibility for our ESG governance. Our Directors actively participate in the formulation of ESG strategies and targets, and evaluate, determine and address our ESG-related risk. Our ESG team assumes the responsibility to (i) identify and evaluate ESG risks and opportunities related to our business; (ii) set ESG goals and targets, and formulate and assess ESG strategic plans and mitigating measures; (iii) monitor and manage matters relating to ESG issues; and (iv) report to and communicate with our Board with respect to the effectiveness of our ESG governance measures. In addition, we have coordinated efforts across departments to implement our ESG plans and report on ESG issues to our management.

Social Responsibility

We believe that our continuous growth rests on integrating social values into our business. We have launched a number of initiatives aimed at supporting our consumers, our employees and the community.

Consumer Protection

Our consumer protection efforts primarily include that (i) we use plain and accurate language on the packaging of our products to mitigate the risks of misunderstanding, and consumers are clearly informed of the composition of product pool and the probability of obtaining a specific random product from a blind box; and (ii) we have formulated and implemented policies to foster rational consumption.

Promotion of Traditional Culture

We are fully committed to harnessing our high-quality products to promote and revitalize the traditional Chinese culture. For example, we launched the Four Classics of Chinese Novels trading cards through collaboration with renowned artist Mr. Dai Dunbang, and we also launched Kayou Sanguo series products under our proprietary IPs, which infused Chinese traditional cultural content with young and creative expressions. We also developed products themed on well-recognized Chinese comics IPs such as The Land of Warriors animation and The Legend of Qin to innovate in the consumption of Chinese cultural content. See "– IP Matrix and Operations."

Public Welfare Activities

We worked with public welfare organizations to launch a series of initiatives aiming at enhancing social well-being and inspiring individuals to shape a brighter future:

- In 2020, we launched Smile Action (微笑行動) to support adolescents suffering from cleft lip and palate in remote areas, serving them with safe, timely, high-quality free surgeries and related treatments. We pledged a donation of RMB1.0 million to the China Charities Aid Foundation for Children (中華少年兒童慈善救助基金會), which supported the treatment of 45 patients.

- In 2020, we launched Warm Star Action (暖星行動) to provide support and assistance to children suffering from autism and their families. We pledged a donation of RMB1.0 million to the Shanghai Charity Foundation (上海市慈善基金會), funding over 2,700 free professional rehabilitation courses, which benefited over 200 children suffering from autism.

- In 2022, we launched the Green Card Action (綠卡行動) in collaboration with the China Disabled Person's Federation to support disadvantaged groups. We engaged children suffering from autism in artistic creation and developed exclusive charity trading card series themed on the artworks created by them. These exclusive charity series can be obtained through a credit system in our WeChat mini program. Specifically, after ordering a trading card pack from our selfoperated store in the WeChat mini program, consumers can electronically open the purchased pack to know what cards would be physically delivered and we can adjust our production plan accordingly. Consumers can waive the physical delivery of certain cards in exchange for credits that could be redeemed for the exclusive charity series cards. As of the Latest Practicable Date, over 9.4 million trading cards purchased online had been exchanged for such credits without physical delivery.

- In 2023, we donated RMB1.0 million to the Shanghai Consumer Rights Protection Foundation (上海市消費者權益保護基金會).

Employee-friendly Workplace

We attach paramount importance to the health and safety of our employees. We are subject to various safety laws and regulations. See "Regulatory Overview – Regulations on Employment and Social Welfare – Regulations on Employment." In accordance with relevant laws, regulations and standards, and taking into account our own circumstances, we have formulated comprehensive occupational health and safety management procedures and guidelines to minimize the risks of occupational disease, improve labor conditions and protect our employees in an effective manner. We provide employees with necessary protective equipment and regularly inspect our production bases to ensure the safety of production equipment. We also provide targeted training to key persons in charge of relevant departments to ensure that they are equipped with the safety knowledge and management skills appropriate to manage the production and business activities. During the Track Record Period and up to the Latest Practicable Date, we had complied with the applicable laws and regulations on occupational health and safety in all material respects, and had obtained all the required permits and approvals for our production facilities in operation. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any safety-related accidents that may materially affect our operations.

In addition, we strive to create a fair and equal workplace to promote diversity and inclusivity within our workforce. To this end, (i) we have implemented our internal policies and procedures in compliance with applicable laws and regulations with regard to the employees' labor rights and interests; (ii) we have treated individuals equally regardless of their gender, age, nationality or cultural background to ensure the transparency, fairness and impartiality of the working environment; and (iii) we have implemented policies on compensation, dismissal, equal opportunities, diversity and anti-discrimination.

Environmental Protection

We make efforts to address environmental challenges and minimize ecological footprint. We actively seek to conserve resources, reduce the discharge of waste and pollutants and support initiatives that contribute to our sustainable development.

Consumption of Resources

We have adopted resource conservation policies and practices in our production with an emphasis on the following aspects:

- *Technology Advancement and Production Process Automation*. We continually enhance the environmental friendliness of our production and reduce resource consumption through technology advancement and automation of production processes. For example, we innovatively improved the thermal transfer printing process of silk precursor ink to greatly reduce the environmental pollution caused by the traditional aluminum plating. See "– Production and Procurement – Production;"

- *Ecologically Friendly Materials*. We use environmentally friendly raw materials and packaging materials in production. For example, we use high-quality ink comprising less than 3% of volatile organic compounds, well below the industry average, according to CIC. We also adopt recyclable and recycled materials in packaging as far as possible, and avoid the use of non-environmentally friendly materials such as non-biodegradable plastic to meet the requirements of sustainable development of the environment;

- *Supply Chain Management*. We work closely with our suppliers to ensure the safety and quality of the raw materials for our products while promoting sustainable development throughout our supply chain; and

- *Energy Conservation*. The primary energy sources we utilize include electricity and water consumed during production. In 2021, 2022 and the nine months ended September 30, 2023 (i) our electricity consumption was approximately 9.0, 12.2 and 11.9 gigawatt-hours, respectively; and (ii) our water consumption was approximately 16.1 thousand, 38.6 thousand and 43.2 thousand tonnes, respectively. We are committed to increasing our energy efficiency while expanding our production capacity. For example, we prioritize using equipment with higher energy efficiency and set precise schedules for production bases to manage their energy consumption. We have also been increasingly utilizing renewable energy for our production bases.

Waste and Pollutant Management

We are subject to environmental protection laws and regulations in China. See "Regulatory Overview – Regulations on Offline Business – Regulations on Production – Regulations on Environmental Protection." Our production facilities in operation discharge waste and pollutants such as wastewater, wastepaper and exhaust gas. Our production activities do not involve the extensive use of hazardous or dangerous chemicals. In practice, we have taken multiple measures to minimize the environmental impact of our production, and the actual discharge of waste and pollutants stemming from our production facilities is well below the permitted levels.

We have established and implemented stringent treatment procedures for waste and pollutants from our production facilities:

- *Wastewater*. We have formulated comprehensive policies on the collection, storage and treatment of wastewater. We also engaged qualified third-party service providers to process wastewater, in order to minimize the adverse environmental effects of our production processes.

- *Wastepaper*. We collect, recycle and reuse wastepaper and defective cards following specific treatment procedures to conserve resources in the production of card products.

- *Pollutants*. We collect and treat the exhaust gas generated from our printing process through the method of dry filtration and double activated carbon adsorption before discharge to mitigate adverse environmental effects.

During the Track Record Period and up to the Latest Practicable Date, we had not materially violated any environmental laws and regulations applicable for our operations.

OUR CUSTOMERS

During the Track Record Period, our customers mainly consisted of distributors, retail KA partners and individual purchasers. Revenue from our five largest customers in each of 2021, 2022 and the nine months ended September 30, 2023 was RMB481.1 million, RMB795.5 million and RMB400.6 million, respectively, and accounted for 21.0%, 19.2% and 20.6% of our total revenue for the same respective periods. All of our five largest customers during the Track Record Period were distributors in China who purchased pan-entertainment products from us. They generally made payments before product delivery without credit term granted. They all settled with us through bank transfer.

The following tables set forth the details of our five largest customers by sales amount for the respective year or period:

Year ended December 31, 2021

No.	Customers	Business Scope	% of Total Revenue	Year of Relationship Commencement
1	Customer A	Sales of toys, animation and entertainment products	8.2	2019
2	Customer B	Sales of toys, animation and entertainment products; Toy technology development and technical consulting	5.1	2018
3	Customer C	Sales of toys, animation and entertainment products; Sales of sports equipment and supplies	2.8	2019
4	Customer D	Sales of toys, animation and entertainment products; Sales of instruments and meters, wires and cables, automation control systems and electromechanical equipment	2.5	2020
5	Customer E	Sales of toys, animation and entertainment products; Sales of clothing, automotive products and electric tools	2.4	2020

Year ended December 31, 2022

No.	Customers	Business Scope	% of Total Revenue	Year of Relationship Commencement
1	Customer A	Sales of toys, animation and entertainment products	7.2	2019
2	Customer F	Sales of toys, animation and entertainment products	3.3	2018
3	Customer B	Sales of toys, animation and entertainment products; Toy technology development and technical consulting	3.2	2018
4	Customer G	Sales of toys, animation and entertainment products	3.0	2018
5	Customer H	Sales of toys, animation and entertainment products and maternity and baby products	2.5	2022

Nine months ended September 30, 2023

No.	Customers	Business Scope	% of Total Revenue	Year of Relationship Commencement
1	Customer A	Sales of toys, animation and entertainment products	7.2	2019
2	Customer F	Sales of toys, animation and entertainment products	3.8	2018
3	Customer B	Sales of toys, animation and entertainment products; Toy technology development and technical consulting	3.6	2018
4	Customer G	Sales of toys, animation and entertainment products	3.2	2018
5	Customer H	Sales of toys, animation and entertainment products and maternity and baby products	2.8	2022

For salient terms of the standard distribution agreement, see "– Sales Network and Marketing – Distributor Channels."

To the best of our knowledge, our five largest customers during the Track Record Period were all Independent Third Parties. To the best of our knowledge, none of our Directors, their close associates or any Shareholders of our Company, who or which to the knowledge of the Directors owned more than 5% of our Company's issued share capital, had any interest in any of our five largest customers during the Track Record Period.

OUR SUPPLIERS

During the Track Record Period, our suppliers mainly consisted of IP partners and raw material suppliers. Purchases from our five largest suppliers in each of 2021, 2022 and the nine months ended September 30, 2023 was RMB566.9 million, RMB624.2 million and RMB260.1 million, respectively, and accounted for 56.6%, 47.4% and 40.2% of our total purchase amounts for the same respective periods. Purchases from our largest supplier in each of 2021, 2022 and the nine months ended September 30, 2023 accounted for 19.0%, 21.9% and 22.0% of our total purchase amounts in the respective periods. Our largest supplier in each period during the Track Record Period was Supplier A, an IP partner in China. All the other five largest suppliers during the Track Record Period were raw material suppliers in China. We were generally granted a credit term of 30 days after invoice date by our five largest suppliers and we settled with them through bank transfer or bills.

The following tables set forth the details of our five largest suppliers by purchase amount for the respective year or period:

Year ended December 31, 2021

No.	Suppliers	Business Scope	% of Total Purchase Amounts	Year of Relationship Commencement
1	Supplier A	Design, produce, publish and act as agents for various types of advertising; Intellectual property agency	19.0	2018
2	Supplier B	Sales of paper products	12.6	2020
3	Supplier C	Sales of paper products	9.2	2020
4	Supplier D	Production, sales and technical development of laser holographic molded products	8.1	2021
5	Supplier E	Sales of paper products	7.7	2020

Year ended December 31, 2022

No.	Suppliers	Business Scope	% of Total Purchase Amounts	Year of Relationship Commencement
1	Supplier A	Design, produce, publish and act as agents for various types of advertising; Intellectual property agency	21.9	2018
2	Supplier B	Sales of paper products	9.2	2020
3	Supplier D	Production, sales and technical development of laser holographic molded products	6.5	2021
4	Supplier E	Sales of paper products	5.1	2020
5	Supplier C	Sales of paper products	4.7	2020

Nine months ended September 30, 2023

No.	Suppliers	Business Scope	% of Total Purchase Amounts	Year of Relationship Commencement
1	Supplier A	Design, produce, publish and act as agents for various types of advertising; Intellectual property agency	22.0	2018
2	Supplier B	Sales of paper products	6.7	2020
3	Supplier D	Production, sales and technical development of laser holographic molded products	4.3	2021
4	Supplier F	Production of plastic products; Sales of plastic products	3.7	2022
5	Supplier G	Paper product production and sales of paper products	3.5	2020

For salient terms of our typical IP license agreements, see "– IP Matrix and Operations – Our IP Operations – IP Development and Commercialization – Collaboration with IP Partners." The salient terms of the agreements with our raw material suppliers are set forth below:

i.	Duration	The term of our agreement with our raw material suppliers is generally one year and may be renewed by mutual agreement.
ii.	Principal rights and obligations of parties involved	The suppliers are liable for breaches of responsibilities including timely delivery and quality assurance of their supplies. The suppliers are responsible for indemnifying us for damages as a result of such breaches. We are responsible for timely payments.
iii.	Product quality and return	The suppliers represent that the raw materials they sell meet the requirements of relevant laws and regulations. The suppliers typically allow us to return defective products.
iv.	Payment and credit terms	We are normally granted by our raw material suppliers a credit period from 30 to 60 days after invoice date.

To the best of our knowledge, our five largest suppliers during the Track Record Period were all Independent Third Parties. To the best of our knowledge, none of our Directors, their close associates or any Shareholders of our Company, who or which to the knowledge of the Directors owned more than 5% of our Company's issued share capital, had any interest in any of our five largest suppliers during the Track Record Period.

OVERLAPPING OF MAJOR SUPPLIER AND CUSTOMER

Supplier A, our largest supplier during the Track Record Period, was also our customer in 2021, 2022 and the nine months ended September 30, 2023. Supplier A was our IP partner and they also purchased pan-entertainment products from us. In 2021, 2022 and the nine months ended September 30, 2023, (i) our purchases from Supplier A amounted to RMB190.5 million, RMB287.8 million and RMB142.2 million, respectively, accounting for 19.0%, 21.9% and 22.0% of our total purchase amounts in the same respective periods; and (ii) our sales to Supplier A represented 0.03%, 0.01% and 0.01% of our total revenue in the same respective periods.

Our sales and purchases with the major overlapping customer and supplier were not inter-conditional with each other. All of our sales to and purchases from Supplier A were conducted in the ordinary course of business under normal commercial terms and on an arm's length basis.

INFORMATION TECHNOLOGY

Information systems are essential to competitiveness and efficient operations. We have instituted information systems covering all material aspects of our operations, including raw material supply, inventory management, production, sales, logistics and consumer services. Our key information systems are set forth below:

- ***Supply chain management system***. It integrates supply chain related information such as raw material supply, inventory monitoring and production estimates and management. Such system in particular supports our rolling production forecast and accurate procurement and production plans so that we are able to maintain suitable inventory level.

- ***Order management system***. It integrates both online and offline order information and enables us to monitor the status of the orders, from acceptance of the orders to order fulfillment, in real time.

- ***Transportation management system***. It supports the planning and monitoring of the transportation of our raw materials and products. Such system plans the means and routes of transportation taking into consideration of the product quantities, available transportation vehicles and the destination information. It also enables us to monitor the transportation in real time to mitigate late delivery risks and enhance our transportation cost control.

- ***Office automation system***. We utilize such system to manage our financial and tax issues. It enables us to control our expenses and declare tax online. It also facilitates finance-related processes for employees such as reimbursement.

Our information technology team is responsible for developing, upgrading and maintaining information systems and customizing them to meet our business needs. We also engage certain third-party service providers for the development, upgrades and maintenance of certain information system, for which we have built comprehensive outsourcing management procedures to monitor, supervise and control the quality of third-party services. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any information system failure or downtime that had a material adverse effect on our business operations.

DATA PRIVACY AND PROTECTION

We have access to and collect transactional information from certain consumers through online channels.

We have designed stringent data protection policies to ensure that the collection, storage, use, transmission and deletion of personal data comply with applicable laws and regulations. Specifically, (i) we clearly inform consumers of our privacy policy, ensuring that they authorize our collection of their personal information for our operations; (ii) we strictly process data in a manner that protects the legitimate rights of associated parties only for specific and reasonable purposes, and limit our data processing activities to the minimum scope for achieving the purpose; (iii) we adopt encrypted storage and backup measures to store and protect consumers' personal data; and (iv) we comprehensively classify the data in our systems by the level of confidentiality.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material violation of any mandatory requirements under applicable laws and regulations in respect of the collection, storage, use and protection of personal data.

INTELLECTUAL PROPERTY

Intellectual property is fundamental to our success and competitiveness. Our license agreements permit us to use the IPs of IP partners in connection with the products we design and sell. Under the relevant license agreements, we license, on either exclusive or non-exclusive basis, the IP rights from IP partners. See "– IP Matrix and Operations – Our IP Operations – IP Development and Commercialization." As of September 30, 2023, (i) we had registered or owned 78 patents, 29 trademarks and one domain name which we consider to be or may be material to our business; and (ii) we had applied for the registration five trademarks which we consider to be or may be material to our business. See "Appendix V – Statutory and General Information – B. Further Information about our Business – 2. Intellectual Property Rights."

We rely on a combination of patent, trademark, copyright and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions, to protect our IP rights. We have implemented comprehensive measures to protect our IPs. Our legal department is responsible for monitoring our IP rights and routinely checks on the public trademark registration platform to timely identify and seek remedy for any potential infringement of our IP rights. We have also engaged IP experts and legal consultants to assist with the protection of our IP rights. Moreover, we have also implemented measures to prevent infringement of IPs of other parties. For example, we incorporate IP protection clauses into the standard IP license agreement with IP partners and require them to provide IP right certificate. We also carefully examine the design elements in evaluating and approving product design proposals to prevent potential IP infringement.

We did not have any material disputes or any other pending legal proceedings concerning IP rights with third parties during the Track Record Period and up to the Latest Practicable Date. We believe that we have taken reasonable measures to prevent infringement of our IP rights.

COMPETITION

The top five companies in the pan-entertainment product industry in China accounted for 25.9% of the total market share in terms of GMV in 2022, according to CIC. We compete primarily with international and domestic pan-entertainment product companies. Deeply rooted in the pan-entertainment product industry in China, we are well-positioned to excel in the industry competition. We believe that our well-recognized brand, strong product design and development capabilities, robust IP and gamification operations, advanced production capabilities and nationwide sales network enable us to compete effectively against our competitors. See "Industry Overview." However, we operate in a competitive industry, and failure to compete effectively could adversely and materially affect our market share, business, financial condition and results of operations. See "Risk Factors – Risks Relating to Our Business and Industry – The industry in which we operate may not develop as we expected, and we may fail to compete effectively against our existing or potential competitors."

RISK MANAGEMENT AND INTERNAL CONTROL

We have put in place a set of internal control and risk management policies and procedures to address potential operational, financial, legal and market risks identified in relation to our operations. We also periodically review these procedures to ensure their effectiveness.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the [**REDACTED**], we have adopted or will adopt, among other things, the following risk management measures:

- establish an Audit Committee to review and supervise our financial reporting process and internal control system. For the qualifications and experience of the committee members, see "Directors and Senior Management;"

- adopt policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure;

- organize training sessions for our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong;

- enhance our reporting and records system for production facilities, including centralizing their quality control and safety management systems and conducting regular inspections of the facilities;

- establish a set of emergency procedures in the event of major quality-related issues; and

- provide enhanced training programs on quality assurance and product safety procedures.

EMPLOYEES

As of the Latest Practicable Date, we had 2,194 full-time employees located in China. The following table sets forth a breakdown of our employees by business function as of the same date:

Business Function	Number of Employees	Percent
		(%)
Research and Development	514	23.4
Sales	616	28.1
Procurement and Production	766	34.9
Management and Administration	298	13.6
Total	2,194	100.0

Attracting, retaining and motivating qualified employees are important to our success. We recruited employees through recruitment channels such as on-campus recruitment, employment websites and referrals during the Track Record Period. In particular, we initiated the Chasing Light Plan to recruit graduates with great potential and set clear career development goals and paths from the beginning of their employment. We endeavor to motivate our employees by providing competitive salaries, comprehensive welfare packages and merit-based incentive schemes based on their performance. We participate in employee social security plans in accordance with applicable laws and regulations in China, including housing provident fund, pension insurance, medical insurance, maternity insurance, work-related injury insurance and unemployment insurance.

We offer training for all employees from entry-level to management, including induction training to our new joiners on our culture, business and industry to help them to fit in, as well as tailored in-house training sessions to our employees to improve technical skills in their practice areas and management skills training programs such as leadership training to management personnel in key positions.

We have established labor unions that protect employees' rights, help fulfill our and our subsidiaries' economic objectives, encourage employee participation in management decisions and assist in mediating disputes between us and union members. We have maintained a good relationship with our employees and did not have any material labor dispute during the Track Record Period.

INSURANCE

We maintain insurance coverage over our daily operations. Our principal insurance policies primarily include property insurance and inventory insurance, which we believe have covered major risks in our daily operations. In line with general market practices, we do not maintain certain policies that are not available in the locations where we operate, or that are not generally required by laws. See "Risk Factors – Our insurance coverage may be insufficient to cover all of our potential losses."

We believe that our insurance coverage is adequate for our business and in line with general market practice. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance plans to align with our needs and with industry practice. During the Track Record Period, we did not make any material insurance claims in relation to our business.

PROPERTIES

Our head office was located in Shanghai as of the Latest Practicable Date, and we owned and leased properties in China. These properties are primarily used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. According to Rule 5.01A of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this Document is subject to the requirements of section 38(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance to include a valuation report with respect to all of our Group's interests in land or buildings, as we had a single property interest with a carrying amount of 15% or more of our consolidated total assets as of the Latest Practicable Date. For details of the property valuation report pursuant to Rule 5.01A of the Listing Rules, see "Appendix IV – Property Valuation Report."

Owned Properties

As of the Latest Practicable Date, we owned land use rights to 28 land parcels in China with a total site area of approximately 424,342.4 sq.m. and 26 buildings in China with an aggregate GFA of 87,613.8 sq.m., primarily for use as offices and production bases. As of the Latest Practicable Date, we had obtained land use right certificates for all of our land parcels and building ownership certificates for all of our owned buildings. We also had two production bases under construction as of the Latest Practicable Date. See "– Production and Procurement – Production – Production Expansion Plan" for details.

Leased Properties

As of the Latest Practicable Date, we leased 159 properties in China with an aggregate GFA of 178,133.0 sq.m., which were primarily used for production bases, offices, warehouses and offline flagship stores.

Title Defects. As of the Latest Practicable Date, lessors had failed to provide us with their property title certificates or proof of authorizations from the property owners for 59 leased properties with an aggregate GFA of 20,518.4 sq.m. We believe that the reasons for the lessors' failure to provide the relevant property ownership certificates or proof of authorizations are beyond our control. As advised by our PRC Legal Advisor, our leases of the properties for which the relevant lessors do not hold valid title to lease out may be subject to challenges from third parties, and if any challenges are successful, relevant leases may be affected and we may be required to relocate from relevant properties. As of the Latest Practicable Date, we had not been subject to any disputes or lawsuits that may materially and adversely affect our business operations relating to our occupation or use of these leased properties with title defects. We believe that the such title defects would not materially and adversely affect our business operations, primarily because (i) if we have to relocate from such leased properties with title defects, we are able to locate qualified alternative premises within a short period of time under comparable terms without incurring substantial additional costs; and (ii) as advised by our PRC Legal Advisor, in the event any of the relevant lease agreements are affected due to the title defects, we are entitled to claim against the relevant lessors for all or part of the losses and damages so caused.

Lease Properties on Allocated Lands. As of the Latest Practicable Date, 25 of our leased properties with an aggregate GFA of 4,264.9 sq.m. were located on allocated lands while the lessors had not completed the necessary procedures with the relevant land administration bureau in China for leasing out such properties on allocated lands in accordance with applicable laws and regulations in China. As advised by our PRC Legal Advisor, such leases of properties on allocated lands may be deemed invalid and we may be required to relocate from these properties. We believe that the relocation would not materially and adversely affect our business operations, primarily because if we have to relocate from such leased properties, we are able to locate qualified alternative premises within a short period of time under comparable terms without incurring substantial additional costs.

Lease Agreement Registration. As of the Latest Practicable Date, we had not registered the lease agreements for 159 of our leased properties with the relevant real estate administration bureaus in accordance with applicable laws and regulations in China. As advised by our PRC Legal Advisor, the non-registration does not affect the validity and enforceability of the lease agreements, but we may be subject to fines from RMB1,000 to RMB10,000 for each such lease agreement for failure to register. As of the Latest Practicable Date, we had not received any notification from competent government authorities that required us to register relevant lease agreements, nor had we received any administrative penalties for non-registration of lease agreements. We believe that the non-registration of lease agreements would not, individually or in the aggregate, materially affect our business and results of operations, primarily because, as advised by our PRC Legal Advisor, a grace period to register is allowed before the imposition of such penalty.

Construction and Fire Protection-related Permits, Filings or Procedures. As of the Latest Practicable Date, we had not obtained or completed construction or fire protection-related permits, filings or procedures for 22 of our leased properties with an aggregate GFA of 61,807.7 sq.m in accordance with applicable laws and regulations in China, primarily because we did not obtain all relevant application documents required by the competent government authorities. Specifically, as of the Latest Practicable Date, (i) we had not obtained the construction permit and had not completed the construction completion acceptance filings and fire protection-related filings and/or procedures for one leased property used for office in Shanghai, two leased properties used for production bases in Yiwu and two leased properties used for production bases in Kaihua; and (ii) we had not obtained the construction permit and/or had not completed the construction completion acceptance filings and/or completed the fire protection-related filings and/or procedures for 17 lease properties used for offline flagship stores. As advised by our PRC Legal Advisor, (i) failure to obtain the construction permit may subject us to an order of rectification and a fine of 1% to 2% of the total cost specified in the construction project contract for each relevant leased property; (ii) failure to complete the construction completion acceptance filings may subject us to an order of rectification and a fine of 2% to 4% of the total cost specified in the construction project contract for each relevant leased property; and (iii) failure to complete the fire protection-related filings and/or procedures may subject us to suspension of use of the relevant leased properties and a fine ranging from RMB30,000 to RMB300,000 for each relevant leased property. As of the Latest Practicable Date, we had not received any notification from competent government authorities that required us to obtain or complete relevant construction or fire protection-related permits, filings or procedures for the 22 leased properties, nor had we received any administrative penalties in this regard. We believe that the foregoing issue would not materially and adversely affect our business operations because (i) we had not received any administrative penalties in this regard as of the Latest Practicable Date; and (ii) we are able to locate qualified alternative premises within a short period of time under comparable terms without incurring substantial additional costs for relocation from these leased properties. As of the Latest Practicable Date:

- We were in the progress of obtaining the construction permit and completing the fire protection-related filings and/or procedures for the two leased properties used for our production base in Kaihua and 10 out of 17 relevant leased properties used for offline flagship stores, which are expected to be completed by January 2025. In addition, we plan to close other two out of 17 relevant leased properties used for offline flagship stores by March 2024.

- We were unable to (i) obtain the construction permit and complete the construction completion acceptance filings and fire protection-related filings and/or procedures for the two leased properties used for our production base in Yiwu and the one leased property used for our office in Shanghai; and (ii) complete the fire protection-related filings and/or procedures for five out of 17 relevant leased properties used for offline flagship stores, mainly because we could not obtain all relevant application documents required by the competent government authorities. In respect of our future plans, (i) we plan to relocate our production base from the two leased properties in Yiwu to our owned property in the same city by January 2025. For information relating to the development of such owned property, see "– Production and Procurement – Production – Production Expansion Plan." The cost of the relocation is estimated to be approximately RMB1.2 million; and (ii) we have formulated plans to locate qualified alternative premises for the one leased property used for our office in Shanghai and the five leased properties used for offline flagship stores.

LICENSES, PERMITS AND APPROVALS

We are required to obtain a number of licenses, permits, approvals and certificates for our business. As advised by our PRC Legal Advisor, we had duly obtained the requisite licenses, permits, approvals and certificates from applicable authorities which are material to our operations, and such licenses, permits, approvals and certificates are valid and subsisting as of the Latest Practicable Date.

We renew the licenses, permits, approvals and certificates from time to time to comply with the relevant laws and regulations. As advised by our PRC Legal Advisor, there is no material legal impediment to renewing the licenses, permits, approvals and certificates required for our operations, as long as we comply with the relevant legal requirements and provided that we take all necessary steps and submit the relevant applications in accordance with the requirements and schedules prescribed by the applicable PRC laws and regulations.

LEGAL PROCEEDINGS AND COMPLIANCE MATTERS

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not involved in any non-compliance incidents that led to fines, enforcement actions or other penalties that could, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. Our Directors are of the view that, we had complied, in all material respects, with all relevant laws and regulations in the jurisdictions we operate in during the Track Record Period and up to the Latest Practicable Date.

AWARDS AND RECOGNITIONS

Our Group received a number of awards and accolades in recognition of our brand and products. The following table sets out major awards and recognitions we received during the Track Record Period and up to the Latest Practicable Date:

Year	Awards/Recognition	Awarding Authority
2023, 2022	2023 Toy Award: Annual Market Star, Annual Potential Product Award; 2022 Toy Award: Annual Hot-Selling Product Award	Ctoy
2023	Influential Brand in Consumer Market Industry	Consumer Daily
2023	Best Card Printing Craftsmanship Prize	DICE CON
2022	Top 10 Innovative Companies in Printing Industry in China	Printer Manager Magazine
2022	Annual Rising Brand	Caijing Magazine
2022	New Consumption Brand Power List	iYiou
2022	Annual New Economy High-Growth Enterprise	36kr
2022	Outstanding Licensee Award, CLE Licensing Exhibition: China Licensing Gold Star Award	China Toy & Juvenile Products Association

We set out below certain transactions with connected persons, which, if carried out after the [**REDACTED**], will constitute continuing connected transactions of our Group under Chapter 14A of the Listing Rules.

CONNECTED PERSONS

We have entered into transactions with the following parties which will become our connected persons upon [**REDACTED**]:

Connected Person	Connected Relationship
Ms. QI Yan (齊燕)	Non-executive Director and one of our Controlling Shareholders
Zhejiang Shunjie Color Printing Co., Ltd. ("**Zhejiang Shunjie**", 浙江順傑彩印有限公司)	Zhejiang Shunjie is a limited liability company incorporated in the PRC on January 7, 2010. As of the Latest Practicable Date, Zhejiang Shunjie was owned as to 60% by Mr. LI Shumin (李淑民), cousin of Mr. LI Qibin (李奇斌). As Mr. Li is our executive Director, chief executive officer and one of our Controlling Shareholders, Zhejiang Shunjie will be a deemed connected person of our Company upon [**REDACTED**].
Pujiang Gaoge Industry and Trade Co., Ltd. ("**Pujiang Gaoge**", 浦江高格工貿有限公司)	Pujiang Gaoge is a limited liability company incorporated in the PRC on October 16, 2019. As of the Latest Practicable Date, Pujiang Gaoge was wholly owned by Mr. CHENG Shiming (程世明), brother-in-law of Mr. Li. As Mr. Li is our executive Director, chief executive officer and one of our Controlling Shareholders, Pujiang Gaoge will be a deemed connected person of our Company upon [**REDACTED**].
Mr. QI Min (齊敏)	As Mr. Qi Min is the brother of Ms. Qi (who is our non-executive Director and one of our Controlling Shareholders), he will constitute a connected person of our Company upon [**REDACTED**].

FULLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Zhejiang Kayou Animation entered into a lease agreement with Ms. Qi, our non-executive Director and one of our Controlling Shareholders, pursuant to which Zhejiang Kayou Animation leased Ms. Qi's property as its staff dormitory for a term from December 1, 2023 to November 30, 2024. As all applicable percentage ratios are less than 0.1%, the transactions contemplated under such lease agreement are fully exempt from the requirements under Chapter 14A of the Listing Rules. For details, please see "Relationship with Our Controlling Shareholders – Independence from Our Controlling Shareholders – Operational Independence".

SUMMARY OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions	Historical amounts	Proposed annual caps
	(RMB in millions)	*(RMB in millions)*
1. Aluminum Foil Bags Supply Framework Agreement		
Transaction amount relating to the purchase of aluminum foil bags by our Group from Zhejiang Shunjie	**for the year ended December 31,** 2021: 33.1 2022: 27.4 **for the nine months ended September 30,** 2023: 12.0	**for the year ending December 31,** 2024: 25.0 2025: 30.0 2026: 36.0
2. Product Supply Framework Agreement		
Transaction amount relating to the purchase of products by our Group from Pujiang Gaoge	**for the year ended December 31,** 2021: 26.1 2022: 31.0 **for the nine months ended September 30,** 2023: 3.9	**for the year ending December 31,** 2024: 32.0 2025: 37.0 2026: 41.0
3. Distribution and Franchise Framework Agreement		
Transaction amount relating to the distribution of our products by, and franchise arrangement with, Mr. Qi Min and/or his associates	**for the year ended December 31,** 2021: 8.7 2022: 22.9 **for the nine months ended September 30,** 2023: 13.1	**for the year ending December 31,** 2024: 25.0 2025: 30.0 2026: 36.0

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

(1) Aluminum Foil Bags Supply Framework Agreement

Principal terms

We entered into a framework agreement for the supply of aluminum foil bags (鋁膜袋) with Zhejiang Shunjie (the "**Aluminum Foil Bags Supply Framework Agreement**") on [●], pursuant to which Zhejiang Shunjie agreed to supply aluminum foil bags to our Group.

The initial term of the Aluminum Foil Bags Supply Framework Agreement will commence on the [**REDACTED**] and end on December 31, 2026, and can be renewed upon its expiry as agreed by the parties to the agreement subject to compliance with the Listing Rules.

Separate underlying agreements will be entered into which will set out the details of materials, purchase price, payment method and other details of the materials supply arrangements in the manner provided in the Aluminum Foil Bags Supply Framework Agreement. The definitive terms of each of such agreements will be determined on a case-by-case basis and on a fair and reasonable basis after arm's length negotiation between the parties.

Pricing policies

The purchase price of the aluminum foil bags supplied by Zhejiang Shunjie under the Aluminum Foil Bags Supply Framework Agreement will be determined with reference to prevailing market prices, and in any event shall not be higher than the prices of similar products that can be procured from suppliers who are Independent Third Parties by the Group. In order to ensure that the purchase price for aluminum foil bags supplied by Zhejiang Shunjie is competitive, our Group shall compare the prices of aluminum foil bags offered by other suppliers who are Independent Third Parties, and will procure them from Zhejiang Shunjie only when the terms offered by Zhejiang Shunjie are equal to or better than those offered by other suppliers who are Independent Third Parties.

Historical transaction amounts

The historical amounts of fees relating to the purchase of aluminum foil bags paid by our Group to Zhejiang Shunjie for the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023 are set out below:

	For the year ended December 31,		For the nine months ended September 30,
	2021	**2022**	**2023**
		(RMB in millions)	
Aggregate transaction amount relating to the purchase of aluminum foil bags paid by our Group to Zhejiang Shunjie	33.1	27.4	12.0

Annual caps

The following table sets forth the proposed annual caps under the Aluminum Foil Bags Supply Framework Agreement:

	Proposed annual cap for the year ending December 31,		
	2024	**2025**	**2026**
		(RMB in millions)	
Maximum transaction amount relating to the purchase of aluminum foil bags to be paid by our Group to Zhejiang Shunjie	25.0	30.0	36.0

Basis of caps

As aluminum foil bags are used to pack our trading card products, our demand for aluminum foil bags is largely related to the number of trading card products we produce. As Zhejiang Shunjie is not the exclusive supplier of aluminum foil bags of our Company, our demand for aluminum foil bags from Zhejiang Shunjie also depends on procurement allocation among all our suppliers of aluminum foil bags. For the year ended December 31, 2021, our purchase of aluminum foil bags from Zhejiang Shunjie reached RMB33.1 million, followed by a decrease in the year ended December 31, 2022 to RMB27.4 million and in the nine months ended September 30, 2023 to RMB12.0 million. The decrease of historical transaction amount for the nine months ended September 30, 2023 was primarily due to our procurement arrangement of aluminum foil bags with Zhejiang Shunjie.

When estimating the proposed annual cap for the year ending December 31, 2024, we primarily make reference to our procurement plan of aluminum foil bags in 2024. When estimating the proposed annual caps for the two years ending December 31, 2025 and 2026, we also take into account our business expansion in 2025 and 2026.

Reasons for and benefits of the transaction

Zhejiang Shunjie has supplied aluminum foil bags to members of the Group for a long time due to its satisfactory products, favorable prices and geographical advantage. In addition, our Group and Zhejiang Shunjie have a long-term, stable relationship, and thus Zhejiang Shunjie is familiar with our business needs and requirements. Based on our previous experience in business dealings with Zhejiang Shunjie, our Company is of the view that Zhejiang Shunjie is capable of effectively satisfying our demands for aluminum foil bags in a stable and reliable manner.

Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Aluminum Foil Bags Supply Framework Agreement for each of the three years ending December 31, 2024, 2025 and 2026 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 0.1% but be less than 5% on an annual basis, the transactions contemplated under the Aluminum Foil Bags Supply Framework Agreement will, upon [**REDACTED**], be subject to the reporting, announcement and annual review requirements but will be exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

(2) Product Supply Framework Agreement

Principal terms

We entered into a framework agreement for the supply of card holders and other acrylic products with Pujiang Gaoge (the "**Product Supply Framework Agreement**") on [●], pursuant to which Pujiang Gaoge agreed to supply those products to our Group.

The initial term of the Product Supply Framework Agreement will commence on the [**REDACTED**] and end on December 31, 2026, and can be renewed upon its expiry as agreed by the parties to the agreement subject to compliance with the Listing Rules.

Separate underlying agreements will be entered into which will set out the details of materials, purchase price, payment method and other details of the materials supply arrangements in the manner provided in the Product Supply Framework Agreement. The definitive terms of each of such agreements will be determined on a case-by-case basis and on a fair and reasonable basis after arm's length negotiation between the parties.

Pricing policies

The procurement of card holders and other acrylic products from Pujiang Gaoge under the Product Supply Framework Agreement will be determined with reference to the prevailing market price, taking into account the quality and techniques applied to products produced by Pujiang Gaoge. In order to ensure that the purchase price from Pujiang Gaoge is competitive, our Group shall compare prices of the same type offered by other suppliers who are Independent Third Parties, and will procure them from Pujiang Gaoge only when the terms offered by Pujiang Gaoge are equal to or better than those offered by suppliers who are Independent Third Parties.

Historical transaction amounts

The historical amounts of fees relating to the purchase of products paid by our Group to Pujiang Gaoge for the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023 are set out below:

	For the year ended December 31,		**For the nine months ended September 30,**
	2021	**2022**	**2023**
		(RMB in millions)	
Aggregate transaction amount relating to the purchase of products paid by our Group to Pujiang Gaoge	26.1	31.0	3.9

Annual caps

The following table sets forth the proposed annual caps under the Product Supply Framework Agreement:

	Proposed annual cap for the year ending December 31,		
	2024	**2025**	**2026**
	(RMB in millions)		
Maximum transaction amount relating to the purchase of products to be paid by our Group to Pujiang Gaoge	32.0	37.0	41.0

Basis of caps

Card holders are primarily used to protect trading cards from wear and tear. Certain card holders are also designed to display trading cards. Card holders procured by our Group from Pujiang Gaoge are used on certain categories of our products. Therefore, the procurement volume of card holders is correlative to the sales volume of such products. Due to the decrease of sales of such products, the historical transaction amount of procurement of card holders in the nine months ended September 30, 2023 also substantially decreased as compared with that in 2022.

Despite the decrease in the nine months ended September 30, 2023, we expect that the sales of those categories of products will increase in the year 2024 compared with that in the year 2023, and we also expect to purchase other acrylic products from Pujiang Gaoge. Therefore, procurement from Pujiang Gaoge in 2024 will increase accordingly. When estimating the annual caps for the years ending December 31, 2025 and 2026, we primarily consider the expected increase in the procurement of card holders and other acrylic products from Pujiang Gaoge driven by our business expansion.

Reasons for and benefits of the transaction

Pujiang Gaoge has supplied card holders to members of the Group due to its satisfactory products, favorable prices and geographical advantage. Card holders provided by Pujiang Gaoge feature special techniques with reinforcement and scratch-resistance which cater to our specific needs for certain categories of our products. Such advantages of Pujiang Gaoge also lead us to purchase other acrylic products from Pujiang Gaoge. In addition, our Group and Pujiang Gaoge have a long-term, stable relationship, and Pujiang Gaoge is also familiar with our business needs and requirements. Based on our previous experience in business dealings with Pujiang Gaoge, we are of the view that Pujiang Gaoge is capable of effectively satisfying our demands for relevant products in a stable and reliable manner.

Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Product Supply Framework Agreement for each of the three years ending December 31, 2024, 2025 and 2026 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 0.1% but be less than 5% on an annual basis, the transactions contemplated under the Product Supply Framework Agreement will, upon [**REDACTED**], be subject to the reporting, announcement and annual review requirements but will be exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

(3) Distribution and Franchise Framework Agreement

Principal terms

We entered into a framework agreement on distribution and franchise arrangement with Mr. Qi Min (the "**Distribution and Franchise Framework Agreement**") on [●], pursuant to which we agreed to distribute our products by, and enter into franchise arrangement with, Mr. Qi Min and/or his associates.

The initial term of the Distribution and Franchise Framework Agreement will commence on the [**REDACTED**] and end on December 31, 2026, and can be renewed upon its expiry as agreed by the parties to the agreement subject to compliance with the Listing Rules.

Separate underlying agreements will be entered into which will set out the details of products, sale price, payment method and other details of the distribution and franchise arrangement in the manner provided in the Distribution and Franchise Framework Agreement. The definitive terms of each of such agreements will be determined on a case-by-case basis and on a fair and reasonable basis after arm's length negotiation between the parties.

Pricing policies

The sale prices of our products sold by us to Mr. Qi Min and/or his associates in both distribution and franchise arrangement shall be determined after arm's length negotiation between the parties with reference to the costs of production of our products, non-exclusivity of distribution and franchise arrangement, areas of distribution and franchise, market position and volume of sales in the past years, and in any event the sales prices offered to Mr. Qi Min and/or his associates shall not be more favorable than those offered to distributors and franchisees who are Independent Third Parties with similar market positions.

Historical transaction amounts

The historical amounts relating to the distribution of our products by, and franchise arrangement with, Mr. Qi Min and/or his associates for the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023 are set out below:

	For the year ended December 31,		**For the nine months ended September 30,**
	2021	**2022**	**2023**
		(RMB in millions)	
Aggregate transaction amount relating to the distribution of our products by, and franchise arrangement with, Mr. Qi Min and/or his associates	8.7	22.9	13.1

Annual caps

The following table sets forth the proposed annual caps under the Distribution and Franchise Framework Agreement:

	Proposed annual cap for the year ending December 31,		
	2024	**2025**	**2026**
		(RMB in millions)	
Maximum transaction amount relating to the distribution of our products by, and franchise arrangement with, Mr. Qi Min and/or his associates	25.0	30.0	36.0

Basis of caps

Mr. Qi Min and/or his associates are non-exclusive distributors of our products and a franchisee operating one of our Kayou Centers with authorized areas in certain cities and counties in Zhejiang Province, the PRC. From 2021 to 2022, we witnessed a substantial increase in the historical transaction amounts due to the increase in the sales of our products in their respective authorized areas. In the nine months ended September 30, 2023, the historical transaction amount substantially dropped, along with the decrease of the sales volume of our products. When estimating the proposed annual caps for the years ending December 31, 2024, 2025 and 2026, we reviewed the sales plan of Mr. Qi Min and/or his associates in authorized areas and made reference to historical transaction amounts of our products relating to them. We believe that their sales plan is practicable and reasonable, and set proposed annual caps accordingly.

Reasons for and benefits of the transaction

The Group has engaged Mr. Qi Min and/or his associates as non-exclusive authorized distributors to distribute our products, and the franchisee to operate one of our Kayou Centers, within their respective authorized areas in the past few years, and has built up a long-term, strategic and solid business relationship with Mr. Qi Min and/or his associates.

Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Distribution and Franchise Framework Agreement for each of the three years ending December 31, 2024, 2025 and 2026 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 0.1%, but be less than 5% on an annual basis, the transactions contemplated under the Distribution and Franchise Framework Agreement will, upon [**REDACTED**], be subject to the reporting, announcement and annual review requirements but will be exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTERNAL CONTROL MEASURES

In order to ensure that the terms under relevant framework agreements for the continuing connected transactions are fair and reasonable, or no less favorable than terms available to or from Independent Third Parties, and are carried out under normal commercial terms, we have adopted the following internal control procedures:

(a) we have adopted and implemented a management system on connected transactions. Under such system, the Audit Committee under the Board is responsible for conducting reviews on compliance with relevant laws, regulations, our Company's policies and the Listing Rules in respect of the continuing connected transactions. In addition, the Audit Committee under the Board, the Board and various other internal departments of our Company (including, but not limited to, the finance department and compliance and legal department) are jointly responsible for evaluating the terms under the framework agreements for the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps under each agreement;

(b) the Audit Committee under the Board, the Board and various other internal departments of our Company also regularly monitor the fulfillment status and the transaction updates under the framework agreements. In addition, the management of our Company also regularly reviews the pricing policies of the framework agreements;

(c) our independent non-executive Directors and auditors will conduct annual reviews of the continuing connected transactions under the framework agreements and provide annual confirmation to ensure that, in accordance with the Listing Rules, the continuing connected transactions are conducted in accordance with the terms of the agreements, on normal commercial terms and in accordance with the relevant pricing policies, and are fair and reasonable and in the interests of our Shareholders as a whole;

(d) when considering fees to be provided to the above connected persons by our Group, the Group will constantly research prevailing market conditions and practices and make reference to the pricing and terms between the Group and Independent Third Parties for similar transactions, to make sure that the pricing and terms offered by the above connected persons from mutual commercial negotiations (as the case may be) are fair, reasonable and are no less favorable than those offered to Independent Third Parties; and

(e) when considering any renewal or revisions to the framework agreements after the [**REDACTED**], the interested Directors and Shareholders shall abstain from voting on the resolutions to approve such transactions at Board meetings or Shareholders' general meetings (as the case may be), and our independent non-executive Directors and independent Shareholders have the right to consider whether the terms of the non-exempt continuing connected transactions (including the proposed annual caps) are fair and reasonable, and on normal commercial terms and in the interests of our Company and our Shareholders as a whole. If the independent non-executive Directors' or independent Shareholders' approvals cannot be obtained, we will not continue with the transactions under the framework agreement(s) to the extent that they constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules.

CONFIRMATION BY DIRECTORS

The Directors (including independent non-executive Directors) are of the view that the non-exempt continuing connected transactions have been and will continue to be carried out in our ordinary and usual course of business of our Company and on normal commercial terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and that the proposed annual caps for the non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

CONFIRMATION BY THE JOINT SPONSORS

Based on the due diligence performed by the Joint Sponsor, including but not limited to (i) reviewing the relevant documents and information provided by the Group, (ii) obtaining the necessary confirmation from our Company, and (iii) participating in the discussion with the management of our Company, the Joint Sponsors are of the view that the non-exempt continuing connected transactions above have been and will continue to be carried out in the ordinary and usual course of business of our Company and on normal commercial terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and that the proposed annual caps of the non-exempt continuing connected transactions above are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

WAIVERS GRANTED BY THE STOCK EXCHANGE

We have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules in respect of the transactions under the Aluminum Foil Bags Supply Framework Agreement, the Product Supply Framework Agreement and the Distribution and Franchise Framework Agreement (the "**Connected Transaction Agreements**") for the terms ending December 31, 2026, subject to the condition that the total amount of transactions under each of the Connected Transaction Agreements for each of the three years ending December 31, 2024, 2025 and 2026 shall not exceed the respective proposed caps as set out in this section.

The independent non-executive Directors and auditors of our Company will review whether the actual transactions under the Connected Transaction Agreements have been entered into pursuant to the principal terms and respective pricing policies under each of the Connected Transaction Agreements. The confirmation from our independent non-executive Directors and our auditors will be disclosed annually according to the requirements of the Listing Rules.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable period of time.

OVERVIEW

As of the Latest Practicable Date, (i) Mr. Li was beneficially indirectly interested in approximately 82.00% of the total issued share capital of our Company through Liqibin Holdings Limited, a company wholly owned by Mr. Li; and (ii) Ms. Qi, spouse of Mr. Li, was indirectly interested in approximately 1.50% of the total issued share capital of our Company through Qiyan Holdings Limited, a company wholly owned by Ms. Qi. Therefore, our Controlling Shareholders, being Mr. Li, Ms. Qi and their holding companies, were interested in approximately 83.50% of the total issued share capital of our Company as of the Latest Practicable Date.

Immediately following the completion of the [**REDACTED**], our Controlling Shareholders will be interested in approximately [**REDACTED**]% of our total share capital (assuming the [**REDACTED**] is not exercised) or approximately [**REDACTED**]% of our total share capital (assuming the [**REDACTED**] is exercised in full). Therefore, Mr. Li, Ms. Qi, Liqibin Holdings Limited and Qiyan Holdings Limited will constitute our Controlling Shareholders upon the [**REDACTED**].

DISCLOSURE UNDER RULE 8.10 OF THE LISTING RULES

As of the Latest Practicable Date, none of the Controlling Shareholders was interested in any business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with the business of our Group or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independent of our Controlling Shareholders and their close associates after the [**REDACTED**].

Management Independence

Although Mr. Li and Ms. Qi, both being our Controlling Shareholders, are Directors of our Company, our daily operational and management decisions are made collectively by our Board and our senior management. Our Board consists of two executive Directors, two non-executive Directors and three independent non-executive Directors. We believe that our Directors and senior management can independently perform their duties in our Company and we can operate independently of our Controlling Shareholders for the following reasons:

- each of our Directors is aware of his/her fiduciary duties as a director of our Company which requires, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest;

- in the event that there is a potential conflict of interests arising out of any transaction to be entered into between our Group and our Controlling Shareholders or each of its or their associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum;

- our Board has a balanced composition of executive Directors and independent non-executive Directors which ensures the independence of our Board in making decisions affecting our Company. Specifically, (a) our independent non-executive Directors are not associated with our Controlling Shareholders or any of their associates; (b) our independent non-executive Directors account for more than one-third of the Board; and (c) our independent non-executive Directors individually and collectively possess the requisite knowledge and experience as independent directors of listed companies and will be able to provide professional and experienced advice to our Company. Therefore, our Directors believe that our independent non-executive Directors are able to bring impartial and sound judgment to the decision-making process of our Board and protect the interests of our Company and our Shareholders as a whole; and

- we will establish corporate governance measures and adopt sufficient and effective control mechanisms to manage conflicts of interests, if any, between our Group and our Controlling Shareholders, which will support our independent management. See "– Corporate Governance Measures" in this Section.

Having considered the above factors, our Directors are satisfied that they are able to perform their managerial roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently of our Controlling Shareholders and their close associates after the [**REDACTED**].

Operational Independence

Our Group holds all the relevant material intellectual property rights, licenses, qualifications and permits required for conducting our Group's business. Our Group has sufficient capital, facilities and employees to operate our business independently of our Controlling Shareholders and their close associates. Our Group also has independent access to our customers and suppliers. We have our own accounting and financial department, human resources and administration department, internal control department and technology department. We have also established a set of internal control procedures and adopted corporate governance practices to facilitate the effective operation of our business.

During the Track Record Period, we entered into certain lease agreements with Ms. Qi, one of our Controlling Shareholders, pursuant to which certain subsidiaries of our Company agreed to rent properties as their office and staff dormitory. Principal terms of such lease agreements are set out as follows:

No.	Lessor	Lessee	Property	Term	Use of property	Property size (square meters)	Rental and payment terms	Listing Rules implications
Office Lease Agreements (each an "Office Lease Agreement", collectively "Office Lease Agreements")								
1.	Ms. Qi	Kayou (Shanghai) Culture Communications	Rooms 101, 102, 201, 202, 301, 302 and 401, 268 Taihong Road, Minhang District, Shanghai, the PRC	March 1, 2021 to February 28, 2026	Office	2,689.44	RMB650,000 per month, payable by the fifteenth day of each month.	Upon application of HKFRS 16 since January 1, 2019, we have recognized right-of-use assets in relation to the fixed-term leases in the form of an asset (representing the right to use the underlying assets during the lease term) and a liability (for the obligation to make lease payments). This Office Lease Agreement is subject to a fixed term and is regarded as a one-off connected acquisition of capital asset under the Listing Rules. As this Office Lease Agreement was entered into prior to the [**REDACTED**] and the transaction thereunder is one-off in nature, the payment of the rental contemplated thereunder will not be classified as a continuing connected transaction under Chapter 14A of the Listing Rules. Accordingly, the transactions under this Office Lease Agreement will not be subject to any of the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

No.	Lessor	Lessee	Property	Term	Use of property	Property size (square meters)	Rental and payment terms	Listing Rules implications
2.	Ms. Qi	The Ningbo Branch of Zhejiang Kayou Animation (浙江卡游動漫有限公司寧波分公司) (from June 1, 2021 to April 30, 2022); Zhejiang Kayou Culture Communications (from May 1, 2022 to May 31, 2026)	Rooms 801, 802, 803, 804, 805 and 806, 555 Tiantong South Road, Yinzhou District, Ningbo, Zhejiang Province, the PRC	June 1, 2021 to May 31, 2026	Office	1,516.85	RMB100,000 per month, payable by the fifteenth day of each month.	This Office Lease Agreement is subject to a fixed term and is regarded as a one-off connected acquisition of capital asset under the Listing Rules. As this Office Lease Agreement was entered into prior to the [**REDACTED**] and the transaction thereunder is one-off in nature, the payment of the rental contemplated thereunder will not be classified as a continuing connected transaction under Chapter 14A of the Listing Rules. Accordingly, the transactions under this Office Lease Agreement will not be subject to any of the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

No.	Lessor	Lessee	Property	Term	Use of property	Property size (square meters)	Rental and payment terms	Listing Rules implications
3.	Ms. Qi	The Guangzhou Branch of Zhejiang Kayou Animation (浙江卡游動漫有限公司廣州分公司) (from September 16, 2021 to May 15, 2022); Shenzhen Kayou Technology (from May 16, 2022 to September 15, 2026)	Rooms 1901, 1906, 1907, 1908, 1909, 1910, 1911 and 1912, 68 Huacheng Boulevard, Tianhe District, Guangzhou, Guangdong Province, the PRC	September 16, 2021 to September 15, 2026	Office	1,486.73	All payable by the tenth day of each month: RMB386,550.32 per month for the first and second year of the lease term; RMB405,877.83 per month for the third year; RMB426,171.72 per month for the fourth year; and RMB447,476.59 per month for the fifth year. A security deposit of RMB773,100.64 is required and refundable after expiry of the lease, subject to customary conditions.	This Office Lease Agreement is subject to a fixed term and is regarded as a one-off connected acquisition of capital asset under the Listing Rules. As this Office Lease Agreement was entered into prior to the [**REDACTED**] and the transaction thereunder is one-off in nature, the payment of the rental contemplated thereunder will not be classified as a continuing connected transaction under Chapter 14A of the Listing Rules. Accordingly, the transactions under this Office Lease Agreement will not be subject to any of the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

No.	Lessor	Lessee	Property	Term	Use of property	Property size (square meters)	Rental and payment terms	Listing Rules implications
Staff Dormitory Lease Agreements (each a "Staff Dormitory Lease Agreement", collectively "Staff Dormitory Lease Agreements")								
4.	Ms. Qi	Kayou (Shanghai) Culture Communications	Room 1501, No. 30, 123 Qufu Road, Jing'an District, Shanghai, the PRC	December 1, 2021 to November 30, 2022	Staff dormitory	173.84	RMB50,000 per month, payable by the twenty-fifth day of the first month of each quarter.	As the transactions underlying this Staff Dormitory Lease Agreement were completed before the [**REDACTED**], Chapter 14A of the Listing Rules is not applicable to them.
5.	Ms. Qi	Zhejiang Kayou Animation	Room 1501, No. 30, 123 Qufu Road, Jing'an District, Shanghai, the PRC	December 1, 2022 to November 30, 2023	Staff dormitory	173.84	RMB50,000 per month, payable by the twenty-fifth day of the first month of each quarter.	As the transactions underlying this Staff Dormitory Lease Agreement were completed before the [**REDACTED**], Chapter 14A of the Listing Rules is not applicable to them.
6.	Ms. Qi	Zhejiang Kayou Animation	Room 1501, No. 30, 123 Qufu Road, Jing'an District, Shanghai, the PRC	December 1, 2023 to November 30, 2024	Staff dormitory	173.84	RMB50,000 per month, payable by the twenty-fifth day of the first month of each quarter.	As all the percentage ratios of this Staff Dormitory Lease Agreement are less than 0.1%, the transaction thereunder is fully exempt from requirements of Chapter 14A of the Listing Rules. See "Connected Transactions — Fully-exempt Continuing Connect Transactions".

In addition, we also entered into certain framework agreements with connected persons in connection with Mr. Li or Ms. Qi, two of our Controlling Shareholders, which will constitute continuing connected transactions of our Group after the [**REDACTED**]. For details of such transactions, see "Connected Transactions." For details about our related party transactions during the Track Record Period, see Note 34 of the Accountants' Report as set out in Appendix I of this Document.

Our Directors are of the view that transactions under the Office Lease Agreements, Staff Dormitory Lease Agreements and the aforementioned framework agreements will not undermine the operational independence of our Group on the basis that, with our access to independent sources, and in the sufficiently competitive market, our Group has other suppliers, distributors and franchisees who are Independent Third Parties, and will be able to identify other suitable substitutes for our office and staff dormitory uses through fair negotiation at similar terms and conditions to meet our business and operational needs, without causing any undue delay or inconvenience.

Based on the above, we believe that we are capable of carrying on our business independently of our Controlling Shareholders and each of their close associates. Our Directors confirmed that our Group will be able to operate independently of our Controlling Shareholders and each of their close associates after the [**REDACTED**].

Financial Independence

Our Group has an independent internal control, accounting and financial management system. We have an independent finance department which makes financial decisions according to our Group's own business needs, as well as an independent accounting department, an independent treasury function for cash receipts and payments, and independent access to third-party financing. Our Group's accounting and finance functions are independent of our Controlling Shareholders and each of their close associates.

As of the Latest Practicable Date, we did not have any outstanding loans granted or guaranteed by any of our Controlling Shareholders to us.

Based on the above, our Directors believe that we have the ability to conduct our business independently from our Controlling Shareholders and their close associates from a financial perspective and are able to maintain financial independence from our Controlling Shareholders and their close associates.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance to protect the interests of our Shareholders. Our Company shall adopt the following corporate governance measures to manage potential conflict of interests between our Group and our Controlling Shareholders:

(a) Where a Shareholders' meeting is held for considering proposed transactions in which one of our Controlling Shareholders has a material interest, such Controlling Shareholder shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting;

(b) Where a Board meeting is held for the matters in which a Director has a material interest, such Director shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting;

(c) Our Directors (including the independent non-executive Directors) will seek independent and professional opinions from external advisors at our Company's cost as and when appropriate in accordance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix C1 to the Listing Rules;

(d) Any transactions between our Company and its connected persons shall be in compliance with the relevant requirements of Chapter 14A of the Listing Rules, including the announcement, annual reporting and independent Shareholders' approval requirements (if applicable) under the Listing Rules; and

(e) We have appointed Maxa Capital Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various requirements relating to directors' duties and corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interests between our Group and our Controlling Shareholders and/or other Directors to protect the minority Shareholders' rights after [**REDACTED**].

OVERVIEW

Our Board consists of seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors.

The Board is responsible for, and has the general authority of, the management and operation of our Company. The powers and duties of the Board include convening general meetings and reporting our Board's work at our Shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and final reports, formulating proposals for profit distributions and exercising other powers, functions and duties as conferred by the Articles.

Our senior management is responsible for the day-to-day management and operation of our Group.

DIRECTORS

The following table sets forth certain information regarding our Directors:

Name	Age	Position(s)	Date of joining our Group	Date of appointment as a Director	Roles and responsibilities	Relationship with other Directors and senior management
Executive Directors						
Mr. LI Qibin (李奇斌)	51	Chairman of the Board, executive Director and chief executive officer	April 2011	May 2021	Formulating the overall strategy, development and investment plans and leading the business direction of our Group	Spouse of Ms. Qi
Mr. GUO Yue (郭越)	34	Executive Director and senior vice president	November 2017	December 2021	Managing the operation of the direct sales business of our Group	None

Name	Age	Position(s)	Date of joining our Group	Date of appointment as a Director	Roles and responsibilities	Relationship with other Directors and senior management
Non-executive Directors						
Ms. QI Yan (齊燕)	51	Non-executive Director	April 2011	January 2024	Providing guidance and advice on corporate and business strategies to our Board	Spouse of Mr. Li
Dr. SU Kai (蘇凱)	46	Non-executive Director	December 2021	December 2021	Providing guidance and advice on corporate and business strategies to our Board	None
Independent non-executive Directors						
Mr. CHAN Wan Tsun Adrian Alan (陳弘俊)	45	Independent non-executive Director	Date of this Document	Date of this Document	Supervising and providing independent advice to our Board on the operations and management of our Group	None
Mr. LI Chung Kwong Andrew (李重光)	64	Independent non-executive Director	Date of this Document	Date of this Document	Supervising and providing independent advice to our Board on the operations and management of our Group	None
Prof. CHEN Jie (陳潔)	49	Independent non-executive Director	Date of this Document	Date of this Document	Supervising and providing independent advice to our Board on the operations and management of our Group	None

Executive Directors

Mr. LI Qibin (李奇斌), aged 51, founder of our Group, has been appointed as a Director and chief executive officer of our Company since May 2021, and was redesignated as an executive Director and elected as the chairman of the Board in January 2024. He is primarily responsible for formulating the overall strategy, development and investment plans and leading the business direction of our Group.

Mr. Li has extensive business and management experience, and over 20 years of experience in the pan-entertainment industry. He started to engage in printing business since 2008 and founded our Group in April 2011. Mr. Li served as an executive director of Kayou (Shanghai) Culture Communications from April 2011 to December 2021. He also held directorships in various subsidiaries within our Group, including as an executive director and the general manager of Zhejiang Kayou Technology from November 2019 to November 2021, as an executive director of Zhejiang Kayou Culture Communications from February 2018 to November 2021, and as an executive director, the general manager and the chief executive officer of Zhejiang Kayou Animation since August 2019.

Mr. Li has been a deputy to the 8th Quzhou Municipal People's Congress (衢州市人民代表大會第八屆人大代表) since March 2022. He is also the co-chairperson of the Board Game and Card Professional Committee of the China Toy & Juvenile Products Association (中國玩協桌游和卡牌專業委員會), the vice president of the Yiwu Federation of Industry and Commerce (義烏市工商業聯合會), the vice president of the Quzhou Federation of Industry and Commerce (衢州市工商業聯合會), as well as the honorary president of the Joint Chamber of Commerce of Yiwu and Kaihua (義烏市開化商會).

Mr. Li has received numerous awards and recognitions, a selection of which includes:

- recognition as the New Zhejiang Businessman with Cultural Characteristics ("文化新浙商") by the Zhejiang Provincial General Office of Culture (浙江省文化廳) and the Zhejiang Branch of Xinhua News Agency (新華社浙江分社) in December 2011;

- the Prize of Entrepreneurship and Innovation (創業創新獎) in the third World Zhejiang Entrepreneurs Convention (世界浙商大會) in October 2015; and

- the 27th Green Leaf Prize of Zhejiang Province (浙江省第27屆綠葉獎) by the People's Education Foundation of Zhejiang Province (浙江省人民教育基金會) in September 2022.

Mr. Li was admitted to Finance and Accounting major of Zhejiang Management University of Water Resources and Electric Power (浙江省水利水電幹校), currently known as Zhejiang Management University of Water Resources and Electric Power of Zhejiang Tongji Vocational College of Science and Technology (浙江同濟科技職業學院浙江省水利水電幹部學校), in the PRC in 1994.

Mr. GUO Yue (郭越), aged 34, has been appointed as a Director of our Company since December 2021, and was redesignated as an executive Director in January 2024. He is primarily responsible for managing the operation of the direct sales business of our Group.

Mr. Guo has nearly 11 years of experience in the pan-entertainment industry. He joined our Group in November 2017, serving successively as an assistant to the general manager to February 2018 and as the chief operation officer from March 2018 to January 2019 of Kayou (Shanghai) Culture Communications. He has served as a senior vice president of both Kayou (Shanghai) Culture Communications and Zhejiang Kayou Animation since February 2019, in addition to his other directorships and senior management positions in various subsidiaries within our Group. Prior to joining our Group, he served at Beetle (Shanghai) Network Technology Co., Ltd. (甲殼蟲(上海)網絡科技有限公司) from March 2013 to October 2017, with his last position being the head of the Marketing Department.

Mr. Guo obtained his Master of Science degree in Executive Leadership from the University of Ulster in the United Kingdom in December 2012.

Non-executive Directors

Ms. QI Yan (齊燕), aged 51, has been appointed as a non-executive Director since January 2024. She is primarily responsible for providing guidance and advice on the corporate and business strategies to our Board.

Ms. Qi has over 20 years of experience in the pan-entertainment industry. She joined our Group in April 2011, serving as a supervisor of Kayou (Shanghai) Culture Communications from April 2011 to December 2021, as a supervisor of Zhejiang Kayou Culture Communications from February 2018 to November 2021, and as a supervisor of Zhejiang Kayou Technology from November 2019 to November 2021. She has served as a supervisor of Zhejiang Kayou Animation since August 2019 and a supervisor of Kayou (Shanghai) Culture Creativity since September 2021. She has also served as a supervisor of Hangzhou Jinka Animation Culture Co., Ltd. (杭州錦卡動漫文化有限公司) since March 2021, and Hebei Jinka Animation Design Co., Ltd. (河北錦卡動漫設計有限公司) since August 2022.

Ms. Qi graduated from the medical professional major of Shaoxing Health School of Zhejiang Province (浙江省紹興衛生學校) (currently known as the Medical School of Shaoxing University (紹興文理學院醫學院)) in the PRC in November 1993.

Dr. SU Kai (蘇凱), aged 46, has been appointed as a Director in December 2021, and was redesignated as a non-executive Director in January 2024. He is primarily responsible for providing guidance and advice on corporate and business strategies to our Board.

Dr. Su has extensive experience in retail management, business strategy development, human resource management, information technology and financing and investment. He has served as a partner of HongShan (formerly known as Sequoia China) since August 2018. Prior to that, Dr. Su worked for several companies, including BenQ Guru Corporation Nanjing

Branch, Kronos, IBM Global Business Services Division Nanjing Branch and San Fu Department Store Ltd. (三福百貨有限公司). Dr. Su also served as the chief executive officer of Golden Eagle Retail Group Limited, a company that was previously listed on the Stock Exchange (stock code: 3308), from August 2014 to May 2018.

Dr. Su obtained his bachelor's degree in Automation from Henan University of Science and Technology (河南科技大學) in the PRC in July 1999, his master's degree in Business Administration from Shanghai Jiao Tong University (上海交通大學) in the PRC in June 2007, and his doctoral degree in Chinese History from Nanjing University (南京大學) in the PRC in June 2023.

Independent non-executive Directors

Mr. CHAN Wan Tsun Adrian Alan (陳弘俊), aged 45, was appointed as an independent non-executive Director in January 2024, with effect from the date of this Document. He is primarily responsible for supervising and providing independent advice to our Board on the operations and management of our Group.

Mr. Chan has over 20 years of experience in the field of corporate finance and financial management. Mr. Chan worked in various financial institutions and investment banks between April 2000 and November 2009, including DBS Vickers Securities from April 2000 to December 2001, with his last position as an executive in the corporate finance department, DBS Asia Capital Limited from January 2002 to July 2005, with his last position as assistant vice president, equity capital markets, wholesale banking-global financial markets, and UOB Asia (Hong Kong) Limited from July 2005 to November 2009, with his last position as an associate director. From November 2009 to June 2015, he served as the chief financial officer of Enviro Energy International Holdings Limited, a company listed on the Stock Exchange (stock code: 1102), where he was responsible for overall financial management, internal control function and accounting function. He also served as an independent non-executive director of Grand Baoxin Auto Group Limited, a company listed on the Stock Exchange (stock code: 1293), from November 2011 to June 2021.

Mr. Chan has served as the chief financial officer of Sun Ray Capital Investment Corporation, a private investment company based in Hong Kong, since July 2015, as the chief financial officer of LabyRx Immunologic Therapeutics Limited, a bio-medical company focused on developing a comprehensive platform for treating adenocarcinomas, since July 2018, and as the chief financial officer of Lifespans Limited, a medical device start-up company, since August 2018. He has been engaged by the CFO (HK) Limited, a company providing part-time chief financial officers services, since January 2021. He has also served as an independent non-executive director of Cheerwin Group Limited, a company listed on the Stock Exchange (stock code: 6601), since February 2021, and as an independent non-executive director of Regent Pacific Group Limited (formerly known as Endurance RP Limited), a company listed on the Stock Exchange (stock code: 575), since April 2023.

Mr. Chan obtained his bachelor's degree in commerce in Accounting and Finance from the University of New South Wales in Australia in April 2000. He has been a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants since June 2006 and November 2009, respectively.

Mr. LI Chung Kwong Andrew (李重光), aged 64, was appointed as an independent non-executive Director in January 2024, with effect from the date of this Document. He is primarily responsible for supervising and providing independent advice to our Board on the operations and management of our Group.

From September 1990 to February 2002, Mr. Li Chung Kwong Andrew served at Chu and Chu, Certified Public Accountants (朱永昌朱國正會計師事務所), with his last position held as a partner. He served as a qualified accountant of Shanghai Forte LAND Co., Ltd. (複地(集團)股份有限公司), a company that was previously listed on the Stock Exchange (stock code: 2337), from October 2004 to September 2005, and as a qualified accountant, the company secretary, and head of the Investors Relations Department of Shanghai Electric Group Company Limited (上海電氣集團股份有限公司), a company listed on the Stock Exchange (stock code: 2727) and Shanghai Stock Exchange (stock code: 601727), from May 2005 to December 2021. Mr. Li Chung Kwong Andrew has served as a partner at K.M. LIN & CO. since May 2023. His other prior experiences include serving as the chief financial officer of Oriental Juice Investments Ltd., as a qualified accountant of COSCO SHIPPING Energy Transportation Co., Ltd. (中遠海運能源運輸股份有限公司) (formerly known as China Shipping Development Company Limited (中海發展股份有限公司)), a company listed on the Stock Exchange (stock code: 1138) and Shanghai Stock Exchange (stock code: 600026), and as the financial senior vice president of Goss International Corporation.

Mr. Li Chung Kwong Andrew obtained a Higher Diploma in Accountancy from the Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in Hong Kong in November 1982. He was admitted as an Associate in October 1991 and a Fellow in March 1999 of Hong Kong Society of Accountants, as an Associate in July 1991 and a Fellow in July 1996 of the Chartered Association of Certified Accountants, as a Certified Internal Auditor by the Institute of Internal Auditors in November 2007, and as a Fellow of the Institute of Chartered Accountants in England and Wales in February 2018.

Prof. CHEN Jie (陳潔), aged 49, was appointed as our independent non-executive Director on January 2024, with effect from the date of this Document. She is primarily responsible for supervising and providing independent advice to our Board on the operations and management of our Group.

Prof. Chen joined Shanghai Jiao Tong University as a lecturer in October 2002, and has served as a professor and doctoral advisor of Antai College of Economics and Management (安泰經濟與管理學院) since January 2013. She also served as a non-executive Director of Kinetix Systems Holdings Limited, a company listed on the Stock Exchange (stock code: 8606), from February 2021 to April 2023.

Prof. Chen was appointed as an executive council member of the Marketing Management Professional Committee of the Chinese Academy of Management (中國管理現代化研究會營銷管理專業委員會) from April 2016 to March 2020, as a director of the Chinese Marketing Association of Universities (中國高等院校市場學研究會) from May 2022 to July 2023, and as an executive director of the ninth board committee of Shanghai Marketing Association (上海市場學會) in 2023. She has also been a member of the Neuro-Economic Management Professional Committee of Chinese Society of Technology Economics (中國技術經濟學會神經經濟管理專業委員會) from April 2018 to April 2023 and since July 2023.

Prof. Chen obtained her bachelor's degree in technological economy in July 1996 and her master's degree in Management Engineering in December 1998, both from Hunan University (湖南大學) in the PRC. She obtained her doctorate degree in Management in December 2002 from Shanghai Jiao Tong University in the PRC. She obtained a teaching qualification in higher education issued by the Shanghai Municipal Education Commission (上海市教育委員會) in December 2003. Prof. Chen was admitted to the Shanghai Pujiang Program (上海浦江人才計劃) by the Shanghai Municipal Human Resources and Social Security Bureau (上海市人力資源和社會保障局) in 2013.

Save as disclosed above, none of our Directors held any directorships in public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this Document. Save as disclosed herein, to the best knowledge, information and belief of the Directors having made all reasonable inquiries, there are no other matters with respect to the appointment of the Directors that need to be brought to the attention of our Shareholders and there is no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The following table provides information about members of our senior management:

Name	Age	Position	Date of joining our Group	Date of appointment as a member of senior management	Roles and responsibilities	Relationship with other Directors and senior management
Mr. LI Qibin (李奇斌)	51	Chairman of the Board, executive Director and chief executive officer	April 2011	May 2021	Formulating the overall strategy, development and investment plans and leading the business direction of our Group	Spouse of Ms. Qi
Ms. WANG Xuan (王軒)	50	Senior vice president	April 2022	April 2022	Managing the finance, legal, branding, marketing and administration departments of our Group	None
Mr. MEI Yunxuan (梅雲軒)	43	Senior vice president	November 2017	November 2017	Managing the research and development of products and overseeing the IP management of our Group	None
Mr. GUO Yue (郭越)	34	Executive Director and senior vice president	November 2017	December 2021	Managing the operation of the direct sales business of our Group	None

Mr. LI Qibin (李奇斌) is our chairman of the Board, executive Director and chief executive officer. See "– Directors" in this section for his biographical details.

Ms. WANG Xuan (王軒), aged 50, has served as a senior vice president of our Company since April 2022. She is primarily responsible for managing the finance, legal, branding, marketing and administration departments of our Group.

Ms. Wang has nearly 20 years of experience in corporate finance and accounting, human resources, and administration management. She has been a senior vice president and the financial controller of Zhejiang Kayou Animation since April 2022, where she manages its finance, legal, branding, marketing and administration departments. Prior to joining our Group, Ms. Wang served at Golden Eagle International Retail Group (China) Co., Ltd. (金鷹國際商貿集團(中國)有限公司) from 2004, with her last position being the vice president.

Ms. Wang obtained her bachelor's degree in International Economy and Trading from Nanjing University of Science and Technology (南京理工大學) in the PRC in July 1995.

Mr. MEI Yunxuan (梅雲軒), aged 43, has served as a senior vice president of our Company since November 2017. He is primarily responsible for managing the research and development of products and overseeing the IP management of our Group. He has also served as a senior vice president of Zhejiang Kayou Animation since November 2017.

Mr. Mei has extensive experience in the pan-entertainment industry. Prior to joining our Group in November 2017, Mr. Mei served as a product director of Beetle (Shanghai) Network Technology Co., Ltd. from April 2012 to November 2017.

Mr. Mei obtained a bachelor's degree in Business Administration from Donghua University (東華大學) in the PRC in July 2014. He has been taking an Executive Master of Business Administration (EMBA) program from China Europe International Business School (中歐國際工商學院) in the PRC since 2022.

Mr. GUO Yue (郭越) is our executive Director and senior vice president. See "– Directors" in this section for his biographical details.

KINSHIP

Saved as that Ms. Qi is the spouse of Mr. Li, there is no other family or blood relationship among any of the Directors and senior management of our Company.

JOINT COMPANY SECRETARIES

Ms. WANG Xuan (王軒), a senior vice president of our Company, was appointed as one of our joint company secretaries on January 11, 2024 with effect from the [**REDACTED**]. See " – Senior Management" in this section for her biographical details.

Ms. AU Wing Sze (區詠詩) was appointed as one of our joint company secretaries on January 11, 2024 with effect from the [**REDACTED**]. Ms. Au is currently an assistant manager of the listing services department of TMF Hong Kong Limited, responsible for providing corporate secretarial and compliance services to listed companies. She has over 10 years of experience in the corporate secretarial field.

Ms. Au obtained her bachelor's degree in business administration from Hong Kong Shue Yan University in Hong Kong in July 2013, and her master in corporate governance from the Open University of Hong Kong (currently known as Hong Kong Metropolitan University) in Hong Kong in August 2019. Ms. Au is an associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.

REMUNERATION OF OUR DIRECTORS AND SENIOR MANAGEMENT

Our Directors and members of senior management receive remuneration from our Company in the form of salaries and allowances, performance-related bonuses, pension scheme contributions and social welfare, and other benefits in kind. We determine the remuneration of our Directors and members of senior management based on their responsibilities, qualifications, position and seniority.

The aggregate amount of remuneration (including salaries and allowances, performance-related bonuses, pension scheme contributions and social welfare, and other benefits in kind) of our Directors for the years ended December 31, 2021, 2022 and the nine months ended September 30, 2023 was RMB4.9 million, RMB6.5 million and RMB4.8 million, respectively.

For each of the years ended December 31, 2021, 2022 and the nine months ended September 30, 2023, there were two, one and one Director(s) among the five highest paid individuals, respectively. The aggregate amount of remuneration (including salaries and allowances, performance-related bonuses, pension scheme contributions and social welfare, and other benefits in kind) we paid to the remaining individuals among the five highest paid individuals for years ended December 31, 2021, 2022 and the nine months ended September 30, 2023 amounted to RMB5.2 million, RMB8.4 million and RMB6.7 million, respectively.

Further information on the remuneration of each Director and the five highest paid individuals during the Track Record Period is set out in Appendix I to this Document.

Under the arrangement currently in force, the total remuneration (including salaries and allowances, performance-related bonuses, pension scheme contributions and social welfare, and other benefits in kind) payable to our Directors for the year ending December 31, 2024 is estimated to be RMB7,515,500 (without taking into account the Shares issued pursuant to the Pre-[**REDACTED**] Equity Incentive Plan) and 91,503,400 Shares (representing the Shares issued pursuant to the Pre-[**REDACTED**] Equity Incentive Plan and after the Share Subdivision) awarded to a Director. For details, see "Appendix V – Statutory and General Information – D. Share Incentive Scheme".

During the Track Record Period, no remuneration was paid to our Directors or any of the five highest paid individuals as an inducement to join, or upon joining, our Group. During the Track Record Period, no compensation was paid to, or receivable by, any of our Directors, former directors or the five highest paid individuals for the loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the Track Record Period.

Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Group.

For the details of the service contracts and letters of appointment that we have entered into with our Directors, see "Statutory and General Information – C. Further Information about our Directors and Substantial Shareholders – 3. Directors' Service Contracts and Appointment Letters" in Appendix V to this Document.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management and will, following the [**REDACTED**], receive recommendations from our remuneration committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of our Directors and the performance of our Group.

MANAGEMENT PRESENCE

We have applied for, and the Stock Exchange [has granted], a waiver from compliance with Rule 8.12 of the Listing Rules. For further details, see the section headed "Waivers from Strict Compliance with the Listing Rules" in this Document.

CORPORATE GOVERNANCE

Board Committees

Our Board [has established] the audit committee, the remuneration committee and the nomination committee, and delegated various responsibilities to these committees, which assist our Board in discharging its duties and overseeing particular aspects of our Group's activities.

Audit Committee

We [have established] an audit committee (with effect from the [**REDACTED**]) with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix C1 to the Listing Rules. Our audit committee comprises three members, namely, Mr. CHAN Wan Tsun Adrian Alan (陳弘俊), Dr. SU Kai (蘇凱) and Prof. CHEN Jie (陳潔). Mr. CHAN Wan Tsun Adrian Alan (陳弘俊), being the chairperson of the audit committee and an independent non-executive Director, has appropriate accounting and related financial management expertise as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The primary duties of the audit committee include, but are not limited to, the following:

(i) making recommendations to our Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;

(ii) monitoring the integrity of the financial reports of our Company, and reviewing significant financial reporting judgments contained in them;

(iii) reviewing our Company's financial controls, risk management and internal control systems;

(iv) considering major investigation findings on risk management and internal control matters;

(v) ensuring coordination between the internal and external auditors, and ensuring that the internal audit function is adequately resourced and has appropriate standing within our Company, and reviewing and monitoring its effectiveness;

(vi) reviewing our Group's financial and accounting policies and practices; and

(vii) performing other duties and responsibilities as assigned by our Board.

Remuneration Committee

We [have established] a remuneration committee (with effect from the [**REDACTED**]) with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix C1 to the Listing Rules. Our remuneration committee comprises three members, namely, Prof. CHEN Jie (陳潔), Mr. LI Qibin (李奇斌) and Mr. LI Chung Kwong Andrew (李重光). Prof. CHEN Jie (陳潔) is the chairperson of our remuneration committee.

The primary duties of the remuneration committee include, but are not limited to, the following:

(i) making recommendations to our Board on our Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(ii) reviewing and approving the management's remuneration proposals with reference to our Board's corporate goals and objectives;

(iii) making recommendations to our Board on the remuneration packages of individual executive Directors and members of senior management;

(iv) making recommendations to our Board on the remuneration of non-executive Directors;

(v) considering salaries paid by comparable companies, the time commitment and responsibilities and employment conditions elsewhere in our Group;

(vi) reviewing and approving compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(vii) reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

(viii) ensuring that no Director or any of their associates is involved in deciding the Director's own remuneration; and

(ix) reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules.

Nomination Committee

We [have established] a nomination committee (with effect from the [**REDACTED**]) with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix C1 to the Listing Rules. Our nomination committee comprises three members, namely, Mr. LI Qibin (李奇斌), Mr. CHAN Wan Tsun Adrian Alan (陳弘俊) and Mr. LI Chung Kwong Andrew (李重光). Mr. LI Qibin (李奇斌) is the chairperson of our nomination committee.

The primary duties of the nomination committee, include, but are not limited to, the following:

(i) reviewing the size and composition (including, but not limited to, diversity of skills, knowledge and experience) of our Board on an annual basis and making recommendations on any proposed changes to our Board to complement our Company's corporate strategy;

(ii) identifying individuals suitably qualified to become a member of our Board and selecting or making recommendations to our Board on the selection of individuals nominated for directorships;

(iii) assessing the independence of the independent non-executive Directors of our Company; and

(iv) making recommendations to our Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular, the chairperson of our Board and our chief executive officer.

Corporate Governance Code

Our Company aims to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. To accomplish this, we expect to comply with the Corporate Governance Code set out in Appendix C1 to the Listing Rules after the [**REDACTED**] save for the below.

Pursuant to code provision C.2.1 of the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the roles of chairman of the board and chief executive should be separate and should not be performed by the same individual. We do not have a separate chairman of the Board and chief executive and Mr. Li currently performs these two roles. The Board believes that vesting the roles of both chairman of the Board and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and the chief executive officer of our Company if and when it is appropriate taking into account the circumstances of the Group as a whole. For further information relating to our Company's corporate governance measures, please see the section headed "Relationship with our Controlling Shareholders – Corporate Governance Measures."

BOARD DIVERSITY

We recognize and embrace the benefits of having a diverse Board and see increasing diversity at the Board level, including gender diversity, as an essential element in maintaining our competitive advantage and enhancing our ability to attract, retain and motivate employees from the widest possible pool of available talent. We have adopted a board diversity policy (the "**Board Diversity Policy**") with the aim of achieving an appropriate level of diversity among Board members according to the circumstances of our Group from time to time.

Pursuant to the Board Diversity Policy, in reviewing and assessing suitable candidates to serve as a Director of our Company, our nomination committee would consider a range of diversity of perspectives with reference to our Company's business model and specific needs, including, but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service and the potential contributions that the candidate is expected to bring to our Board. All Board appointments will be based on merit and candidates will be considered against objective criteria, having due regard to the benefits of diversity to our Board. After [**REDACTED**], our nomination committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness, and we will disclose the policy or a summary thereof in our corporate governance report on an annual basis.

Our Board has a balanced mix of experience and skills, including, but not limited to, business strategy development, human resources, administration management as well as finance and accounting. Our Board has a relatively wide range of ages, ranging from 34 to 64 years old. Furthermore, we have two female Directors. After due consideration, our Board believes that based on the merits of our Directors, the composition of our Board satisfies our Board Diversity Policy.

CONFIRMATION FROM OUR DIRECTORS

Rule 8.10 of the Listing Rules

Each of our Directors confirms that as of the Latest Practicable Date, he or she did not have any interest in a business which competes or is likely to compete, either directly or indirectly, with our Company's business which would require disclosure under Rule 8.10 of the Listing Rules.

Rule 3.09D of the Listing Rules

Each of our Directors confirms that he or she (i) has obtained the legal advice referred to under Rule 3.09D of the Listing Rules in January 2024, and (ii) understands his/her obligations as a director of a listed issuer under the Listing Rules.

Rule 3.13 of the Listing Rules

Each of the independent non-executive Directors has confirmed (i) his/her independence as regards each of the factors referred to in Rules 3.13(1) to (8) of the Listing Rules, (ii) he/she has no past or present financial or other interest in the business of our Company or its subsidiaries or any connection with any core connected person of our Company under the Listing Rules as of the Latest Practicable Date, and (iii) that there are no other factors that may affect his/her independence at the time of his/her appointments.

COMPLIANCE ADVISOR

We have appointed Maxa Capital Limited as our compliance advisor (the "**Compliance Advisor**") pursuant to Rule 3A.19 of the Listing Rules. Our Compliance Advisor will provide us with guidance and advice as to compliance with the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, our Compliance Advisor will advise our Company, among others, in the following circumstances:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

(c) where we propose to use the [**REDACTED**] of the [**REDACTED**] in a manner different from that detailed in this Document or where the business activities, developments or results of our Group deviate from any forecast, estimate, or other information in this Document; and

(d) where the Stock Exchange makes an inquiry to our Company concerning unusual movements in the price or trading volume of its listed securities or any other matters under Rule 13.10 of the Listing Rules.

The term of appointment of our Compliance Advisor shall commence on the [**REDACTED**] and end on the date on which our Group complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [**REDACTED**], and such appointment may be subject to extension by mutual agreement.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [**REDACTED**], assuming that the [**REDACTED**] is not exercised, all Series A Preferred Shares have been converted into the Shares on a one-to-one basis and the Share Subdivision is completed, the following persons will have interests and/or short positions (as applicable) in the Shares or underlying shares of our Company that (a) would fall to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, (b) will be, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company:

Interests in Shares of our Company

Name of Shareholder	Nature of interest	Number of Shares held[(1)]	Approximate percentage of shareholding of the Shares in our Company[(1)]
Mr. Li[(2)]	Interest in controlled corporation; interest of spouse	1,091,503,400	[**REDACTED**]%
Ms. Qi[(2)]	Interest in controlled corporation; interest of spouse	1,091,503,400	[**REDACTED**]%
Liqibin Holdings Limited[(2)]	Beneficial owner	1,071,895,500	[**REDACTED**]%
HongShan Growth[(3)]	Beneficial owner	137,254,900	[**REDACTED**]%
HongShan Capital Growth Fund VI, L.P.[(3)]	Interest in controlled corporation	137,254,900	[**REDACTED**]%
HSG Growth VI Management, L.P.[(3)]	Interest in controlled corporation	137,254,900	[**REDACTED**]%
HSG Holding Limited[(3)]	Interest in controlled corporation	137,254,900	[**REDACTED**]%
SNP China Enterprises Limited[(3)]	Interest in controlled corporation	137,254,900	[**REDACTED**]%
Neil Nanpeng Shen[(3)]	Interest in controlled corporation	137,254,900	[**REDACTED**]%

Notes:

(1) Based on the assumption that the [**REDACTED**] is not exercised, all Series A Preferred Shares have been converted into the Shares on a one-to-one basis and the Share Subdivision is completed immediately upon the completion of the [**REDACTED**].

(2) Mr. Li and Ms. Qi are spouses. Mr. Li, through his wholly-owned entity, Liqibin Holdings Limited, is interested in 1,071,895,500 Shares. Ms. Qi, through her wholly-owned entity, Qiyan Holdings Limited, is interested in 19,607,900 Shares. As such, by virtue of the SFO, both Mr. Li and Ms. Qi are deemed to be interested in 1,091,503,400 Shares beneficially owned by Liqibin Holdings Limited and Qiyan Holdings Limited.

(3) HongShan Growth is wholly owned by HongShan Capital Growth Fund VI, L.P. The general partner of HongShan Capital Growth Fund VI, L.P. is HSG Growth VI Management, L.P., whose general partner is HSG Holding Limited, which is a wholly-owned subsidiary of SNP China Enterprises Limited. Neil Nanpeng Shen is the sole shareholder of SNP China Enterprises Limited. As such, by virtue of the SFO, each of HongShan Growth, HongShan Capital Growth Fund VI, L.P., HSG Growth VI Management, L.P., HSG Holding Limited, SNP China Enterprises Limited, and Neil Nanpeng Shen is deemed to be interested in 137,254,900 Shares.

Except as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the [**REDACTED**] (assuming that the [**REDACTED**] is not exercised, all Series A Preferred Shares have been converted into the Shares on a one-to-one basis and the Share Subdivision is completed immediately upon the completion of the [**REDACTED**]), have any interest and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed to our Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company or any other member of our Group.

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company immediately prior to and following the completion of the [**REDACTED**], assuming that the [**REDACTED**] becomes unconditional, the [**REDACTED**] are issued pursuant to the [**REDACTED**], all Series A Preferred Shares have been converted into Ordinary Shares on a one-to-one basis and the Share Subdivision is completed immediately upon completion of the [**REDACTED**].

1. Share capital as at the date of this Document

(i) Authorized share capital

Description of Shares	Number of Shares	Approximate aggregate nominal value of shares	Approximate percentage of authorized share capital of our Company
		(US$)	*(%)*
Ordinary Shares of a par value of US$0.000001 each	49,823,529,400	49,823.5294	96.47
Series A Preferred Shares of a par value of US$0.000001 each	176,470,600	176.4706	3.53
Total	50,000,000,000	50,000	100.00

(ii) Issued Share Capital

Description of Shares	Number of Shares	Approximate aggregate nominal value of shares)	Approximate percentage of issued share capital of our Company
		(US$)	*(%)*
Ordinary Shares of a par value of US$0.000001 each	1,130,718,900	1,130.7189	86.50
Series A Preferred Shares of a par value of US$0.000001 each	176,470,600	176.4706	13.50
Total	1,307,189,500	1,307.1895	100

2. Share capital immediately following the completion of the [REDACTED]

(i) Authorized share capital

Description of Shares	Number of Shares	Approximate aggregate nominal value of shares	Approximate percentage of authorized share capital of our Company
		(US$)	*(%)*
Ordinary Shares of a par value of US$0.000001 each	50,000,000,000	50,000	100
Total	50,000,000,000	50,000	100

(ii) Issued Share Capital

Assuming the [**REDACTED**] is not exercised:

Description of Shares	Number of Shares	Approximate aggregate nominal value of shares	Approximate percentage of issued share capital of our Company
		(US$)	*(%)*
Ordinary Shares of a par value of US$0.000001 each	1,307,189,500	1,307.1895	[**REDACTED**]
Ordinary Shares of a par value of US$0.000001 each to be issued pursuant to the [**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Total	[**REDACTED**]	[**REDACTED**]	100.00

Assuming the [**REDACTED**] is exercised in full:

Description of Shares	Number of Shares	Approximate aggregate nominal value of shares	Approximate percentage of issued share capital of our Company
		(US$)	*(%)*
Ordinary Shares of a par value of US$0.000001 each	1,307,189,500	1,307.1895	[**REDACTED**]
Ordinary Shares of a par value of US$0.000001 each to be issued pursuant to the [**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Total	[**REDACTED**]	[**REDACTED**]	100.00

ASSUMPTIONS

The above tables assume that the [**REDACTED**] becomes unconditional, the issuance of Shares pursuant to the [**REDACTED**] is made as described herein, each of the Series A Preferred Shares has been converted into Ordinary Shares on a one-to-one basis, and the Share Subdivision has been completed. The tables above also do not take into account any Shares that may be issued or repurchased by our Company under the general mandate granted to our Directors as referred to below.

RANKING

All Series A Preferred Shares will be converted into Ordinary Shares on a one-on-one basis immediately upon completion of the [**REDACTED**]. The [**REDACTED**] will rank pari passu in all respects with all Shares in issue or to be issued as mentioned in this Document, and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Shares on a record date which falls after the date of this Document.

ALTERATIONS OF CAPITAL

Pursuant to the Cayman Companies Act and the terms of the Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide all or any of its share capital into Shares of a larger amount; (iii) subdivide its existing Shares, or any of them into Shares of a smaller amount; (iv) cancel any shares which have not been taken; (v) make provision for the allotment and issue of shares which do not carry any voting rights; (vi) change the currency of denomination of its share capital; and (vii) reduce its share premium account in any manner authorized, and subject to any conditions prescribed by law. In addition, our Company may, subject to the provisions of the Cayman Companies Act, reduce its share capital and any capital redemption reserve by its Shareholders passing a special resolution. See Appendix III to this Document for further details.

GENERAL MANDATE TO ISSUE SHARES

Subject to the [**REDACTED**] becoming unconditional, our Directors [have been granted] a general unconditional mandate, to allot, issue and deal with the Shares with a total nominal value of not more than the sum of:

(i) 20% of the total number of the Shares in issue immediately following the completion of the [**REDACTED**] (excluding the additional Shares which may be issued pursuant to the exercise of the [**REDACTED**]); and

(ii) the aggregate total number of Shares repurchased by our Company under the authority referred to in the paragraph headed "– General Mandate to Repurchase Shares" in this section.

This general mandate to issue Shares will expire at the earliest of:

(i) the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or

(ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or

(iii) the time when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

See "Statutory and General Information – A. Further Information about our Group – 4. Resolutions of Our Shareholders of our Company dated [●], 2024" in Appendix V to this Document for further details of the general mandate.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the [**REDACTED**] becoming unconditional, our Directors [have been granted] a general unconditional mandate, to exercise all the powers of our Company to repurchase our own securities with a nominal value of up to 10% of the total number of our Shares in issue immediately following completion of the [**REDACTED**] (excluding the additional Shares which may be issued pursuant to the exercise of the [**REDACTED**]).

The repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares are listed (and which are recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in "Statutory and General Information – A. Further Information about our Group – 5. Repurchase of Our Own Securities" in Appendix V to this Document.

This general mandate to repurchase Shares will expire at the earliest of:

(i) the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or

(ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or

(iii) the time when it is varied or revoked by an ordinary resolution of our Shareholders passed at a general meeting.

See "Statutory and General Information – A. Further Information about our Group – 4. Resolutions of Our Shareholders of our Company dated [●], 2024" in Appendix V to this Document for further details of the repurchase mandate.

You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountants' Report in Appendix I to this Document. Our consolidated financial information has been prepared in accordance with IFRSs.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this Document, including but not limited to the sections headed "Risk Factors" and "Business."

For the purpose of this section, unless the context otherwise requires, references to 2021 and 2022 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a pioneer and leader in the pan-entertainment product industry in China. Toys, particularly trading cards, are our core products. We have enriched our toy product offerings to introduce other product categories such as figures, trading card collection books, badges, stickers and acrylic stands and successfully branched out into stationery products to roll out products such as pens and notebooks. Dedicated to offering high-quality, fun and interactive products, we aim to bring joy and positivity to our ever-broadening consumer base. Our industry positions in China in terms of GMV in 2022 according to CIC are as follows: (i) we ranked second in the pan-entertainment product industry and the pan-entertainment toy industry; (ii) we ranked first in the fast-growing trading card sector of the pan-entertainment toy industry; and (iii) we ranked seventh in the pan-entertainment stationery industry.

Our revenue increased by 79.7% from RMB2,298.3 million in 2021 to RMB4,131.1 million in 2022, primarily due to an increase in sales of trading cards, corresponding to an increase in their sales volume. Our revenue decreased by 46.6% from RMB3,652.1 million in the nine months ended September 30, 2022 to RMB1,951.5 million in the same period of 2023, primarily due to a decrease in sales of trading cards, corresponding to a decrease in their sales volume.

The sales volume of trading cards grew significantly in 2022 compared to 2021, benefiting from our continuous efforts in past years in new series roll-outs, IP operations, gamification operations and sales channel penetration in light of the increasing popularity of trading cards in China. The sales volume of our trading cards, however, decreased in the nine months ended September 30, 2023 compared to the same period of 2022, mainly due to our strategic efforts in diversifying product mix and IP matrix to cater to the increasing consumer demand for more diverse product categories and IP content. Evident to our diversification efforts, we branched out into stationery products in 2022 and launched figures in 2023. Our revenue generated from sales of products other than trading cards was RMB128.8 million, RMB200.9 million and RMB276.5 million in 2021, 2022 and the nine months ended September 30, 2023, respectively. In addition, the decrease in the sales volume of trading cards also reflected the impact of the public health incidents on overall social activities and general business environment, especially during the period from late 2022 to early 2023. Along with the phasing out of the public health incidents, consumers enjoyed a fuller social experience with our trading cards and the operations of ours and our business partners gradually normalized.

We had net loss of RMB153.2 million and RMB296.0 million in 2021 and 2022, respectively. We had net profit of RMB260.2 million in the nine months ended September 30, 2023 compared to net loss of RMB115.2 million in the same period of 2022. Our adjusted net profit (*non-IFRS measure*) increased from RMB795.4 million in 2021 to RMB1,619.7 million in 2022, and decreased from RMB1,567.6 million in the nine months ended September 30, 2022 to RMB578.1 million in the same period of 2023.

BASIS OF PREPARATION AND PRESENTATION

The Historical Financial Information (as defined in Appendix I to this Document) has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board.

All IFRSs effective for the accounting period commencing from January 1, 2023, together with the relevant transitional provisions, have been early adopted by us in the preparation of the Historical Financial Information throughout the Track Record Period.

The Historical Financial Information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss, which have been measured at fair value.

For more information on the basis of preparation and presentation of the Historical Financial Information, see Notes 2.1 and 2.2 of Appendix I to this Document.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, including the following:

Industry Environment and Consumer Demand

We compete in the fast-growing pan-entertainment product industry in China. Our results of operations and financial condition are affected by the general factors driving the development of the pan-entertainment product industry in China, including China's overall economic growth, levels of per capita disposable income and consumer spending in China and evolving consumption patterns. Our results of operations and financial condition are also affected by laws and regulations, governmental policies and initiatives relating to the pan-entertainment product industry in China, see "Regulatory Overview."

As a pioneer and leader in the pan-entertainment product industry in China, we solidify our competitive edge by effectively capturing evolving consumer demand and continuously enhancing consumer experience, which are critical to our product sales and overall financial performance. We not only focus on continuously diversifying and upgrading our product mix and IP matrix catering to consumer demand, but also enhancing consumer engagement through distinct gamification operations. Benefiting from such efforts, we are able to interact directly with consumers and identify consumer preferences, while enlarging our consumer base and bolstering our brand recognition.

As a result, we believe that our capabilities to continuously adapt to changing industry trends and evolving consumer demand and effectively carry out gamification operations to enhance consumer experience are critical for our brand building, operational efficiency and financial performance.

Product Mix

Leveraging our strong product design and innovation capabilities, we have strategically built a diverse and continuously upgrading product mix comprising toys and stationery products. Toys, particularly trading cards, are our core products and we have enriched our toy product offerings with other toy categories. We have also branched out into stationery products. See "Business – Our Brand and Products – Our Product Offerings." Typically, our products of different categories vary in retail prices, raw materials, production process and package formats and thus have different gross profit margin. As a result, our revenue and profitability are largely affected by our product mix.

The following table sets forth a breakdown of our revenue and gross profit margin by product category for the periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2021		2022		2022		2023	
	Revenue	Gross profit margin	Revenue	Gross profit margin	Revenue	Gross profit margin	Revenue	Gross profit margin
	(RMB in millions)	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*
					(Unaudited)			
Toys	2,298.3	58.1	4,110.2	68.9	3,644.0	69.9	1,817.7	69.4
– Trading cards	2,169.5	59.5	3,930.2	69.9	3,479.7	70.9	1,675.0	71.2
– Figures	–	–	–	–	–	–	80.1	43.2
– Other toys[1]	128.8	34.9	180.0	46.4	164.3	48.5	62.6	54.3
Stationery products	–	–	20.9	49.8	8.1	49.4	133.8	39.2
Total	2,298.3	58.1	4,131.1	68.8	3,652.1	69.8	1,951.5	67.3

Note:

(1) Primarily include trading card collection books, badges and stickers.

A majority of our revenue was generated from sales of trading cards during the Track Record Period. Our revenue generated from sales of trading cards amounted to RMB2,169.5 million, RMB3,930.2 million, RMB3,479.7 million and RMB1,675.0 million in 2021, 2022 and the nine months ended September 30, 2022 and 2023, respectively, accounting for 94.4%, 95.1%, 95.3% and 85.8% of our total revenue in the same respective periods. We have been expanding into other product categories to explore new market opportunities and create new growth engines, and our revenue generated from sales of toys other than trading cards reached RMB142.7 million and that from sales of stationery products reached RMB133.8 million in the nine months ended September 30, 2023. We believe that our increasingly diverse product mix enables us to effectively respond to evolving industry trends and consumer preferences. In 2021, 2022 and the nine months ended September 30, 2023, we have been routinely upgrading our product mix with new product series and rolled out (i) 143, 190 and 177 series of toys, respectively, including 132, 168 and 121 series of trading cards in the same respective periods; and (ii) nil, six and 52 series of stationery products, respectively. Our ability to consistently develop and launch high-quality products and continually upgrade the product mix keeps our product offerings fresh and engaging for consumers, and is critical to our results of operations.

In particular, high-quality IP content is vital to our products. We have curated a diverse IP matrix that captures the preferences of a broad spectrum of consumers, laying a solid foundation for our continuous product launch and consumer base expansion. Our IP matrix comprised 44 IPs as of September 30, 2023. We have been persistently enriching our IP matrix through licensing from IP partners and development of proprietary IPs. We had licensing fees under cost of sales of RMB166.2 million, RMB210.9 million and RMB113.4 million, respectively, in 2021, 2022 and the nine months ended September 30, 2023, representing 7.2%, 5.1% and 5.8% of our revenue in the same respective periods. We intend to continue identifying and commercializing high-quality IPs with strong potential, while maintaining reasonable IP licensing fee arrangements with IP partners to fuel the growth of our revenue and enhance our profitability.

As a result, we believe that our sustainable growth depends on our product design and development capabilities as well as our IP sourcing, development and commercialization capabilities that enable us to constantly enrich and upgrade our product mix themed on diverse IPs catering to a broad spectrum of consumer needs.

Sales Network

We have a nationwide sales network consisting of (i) distributor channels; (ii) direct sales channels; and (iii) retail channels. See "Business – Sales Network and Marketing."

We had cultivated a robust nationwide distributor network with 230 distributors in 31 provinces as of September 30, 2023. A majority of our sales came from distributor channels during the Track Record Period. Our revenue generated from distributor channels amounted to RMB2,225.0 million, RMB3,826.9 million and RMB1,585.0 million in 2021, 2022 and the nine months ended September 30, 2023, respectively, accounting for 96.8%, 92.7% and 81.2% of our total revenue in the same respective periods. Our relationship with distributors and the sales performance of our distributor network is crucial for the financial performance. We plan to consistently optimize our distributor network by continuously identifying, collaborating with and empowering capable and entrepreneurial distributors, enhancing the accessibility of our products and boosting sales.

Our distributor network is complemented by direct sales channels and retail channels. For example, we have broadened our online presence through online self-operated stores on e-commerce platforms such as Tmall, JD and Pinduoduo and other online sales channels such as Douyin, WeChat mini program and Bilibili so that we effectively seize new retail opportunities. We have also operated offline stores to directly interact with consumers and promote our brand recognition. We have been exploring such online and offline channels other than distributor network to accommodate varied consumption scenarios, enlarge consumer base and offer differentiated purchase experience, making our products more accessible while bolstering our brand recognition. Our direct sales and retail channels have played an increasingly important role in our sales network during the Track Record Period and exhibited substantial potential in propelling the future growth of our revenue. Our revenue from sales channels other than distributors increased significantly from RMB73.3 million in 2021 to RMB304.2 million in 2022, and increased by 48.4% from RMB246.9 million in the nine months ended September 30, 2022 to RMB366.5 million in the nine months ended September 30, 2023. We plan to enhance our penetration in direct sales and retail channels to increase direct interactions with consumers and sustain our growth.

Our multi-channel sales network enables us to reach a broad consumer base, offer interactive consumer experience and enhance our brand recognition. We believe that our capabilities to continuously expand our sales network and enhance our penetration in the sales channels are pivotal to our business development.

Production Capabilities and Procurement Management

We are dedicated to producing high-quality products leveraging our advanced production capabilities and supply chain management. As of the Latest Practicable Date, we had three production bases and collaborated with OEM providers. See "Business – Production and Procurement." Our supply efficiency and product quality depend mainly on our abilities to (i) effectively expand production capacity and enhance production flexibility to promptly respond to market demand; and (ii) continuously improve technologies and optimize production processes. To solidify our production capabilities, we plan to (i) upgrade our existing production bases and enhance the automation and intelligence of our production and inspection processes, which we believe can improve product quality and enhance production efficiency; and (ii) construct production bases for major product categories to expand our in-house production capacity, increasing our product supply stability and realizing economies of scales. While these initiatives involve certain expenses and expenditures in the short term, they are expected to drive the growth of our revenue and profitability in the long run.

In addition, effective procurement management is crucial for us to control our cost of sales and ensure the consistent high quality of our products. Our direct material costs amounted to RMB699.3 million, RMB932.7 million and RMB388.9 million in 2021, 2022 and the nine months ended September 30, 2023, respectively, accounting for 72.6%, 72.4% and 61.0% of our total cost of sales in the same respective periods. We generally maintain long-term collaboration with suppliers to secure stable supply of raw materials and packaging materials at reasonable prices. As our business expands, we may benefit more from economies of scale. In addition, we intend to enhance the automation and intelligence of our procurement management to strengthen our ability in procurement planning and inspection, further increasing our supply chain management and enhancing our operational efficiency.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are deemed to be reasonable under the circumstances. There has not been any material deviation from our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in Notes 2.4 and 3 of Appendix I to this Document.

Significant Accounting Policies

Revenue Recognition

Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

Sale of Goods

We generate revenue from the sale of goods, including sales from distributor channels, sales from retail channels and sales from direct sales channels, which is recognized at the point in time when control of the assets is transferred to the customer.

For sales from distributor channels, revenue is recognized when control of the products has transferred, being when products are delivered to the distributors, the distributors have full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the distributors' acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the distributors, and either the distributors have accepted the products in accordance with the sales contracts, the acceptance provisions have lapsed, or we have objective evidence that all criteria for acceptance have been satisfied.

For sales from retail channels, revenue is recognized when the control of the products has transferred to the retailers, which is the point of acceptance by the retailers.

For sales from direct sales channels, revenue is recognized when the control of the products has transferred to the end customers.

Variable Consideration: Volume-based Rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a liability for the expected future rebates is recognized.

Contract Liabilities

A contract liability is recognized when a payment is received or a payment is due (whichever is earlier) from a customer before we transfer the related goods. Contract liabilities are recognized as revenue when we perform under the contract, such as transferring control of the related goods to the customer.

Other Intangible Assets

Software

Software is stated at cost less any impairment losses and is amortized on the straight-line basis over its estimated useful life of ten years, which is the license period of the software.

Licensed IPs

License rights are stated at historical cost less accumulated amortization and accumulated impairment losses and are amortized on the straight-line basis over their estimated useful life of 15 months to ten years.

The historical costs of license rights are measured at the present values of the fixed minimum payments at the date of purchase of the respective license rights. Variable payments in relation to license rights that depend on sales or production are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

The useful lives of the licensed IPs are determined based on the shorter of the expected lifespan of the IPs and the contractual term of the respective license agreements, during which such assets can bring economic benefit to us.

Research and Development Costs

All research costs are charged to the statements of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when we can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, our intention to complete and our ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Property, Plant and Equipment and Depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly. Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are set out in Note 2.4 of Appendix I to this Document. Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year/period end. An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the reporting period the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset. Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Leases

We assess at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. We apply a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. We recognize lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use Assets

Right-of-use assets are recognized at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as set out in Note 2.4 of Appendix I to this Document. If ownership of the leased asset transfers to us by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease Liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by us and payments of penalties for termination of a lease, if the lease term reflects us exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, we use our incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments such as a change to future lease payments resulting from a change in an index or rate, or a change in assessment of an option to purchase the underlying asset.

Short-term Leases

We apply the short-term lease recognition exemption to short-term leases of office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases are recognized as an expense on a straight-line basis over the lease term.

Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss. The convertible redeemable preferred shares issued by us and commitment derivatives were designated upon initial recognition at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss. The component of fair value changes relating to our own credit risk is recognized in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realized. The net fair value changes relating to market risk are recognized in profit or loss which do not include any interest charged on these financial liabilities.

Financial Investments

Unlisted equity investments are classified as financial assets at fair value through profit or loss ("FVTPL Assets"). FVTPL Assets are measured and recorded at fair value with net changes in fair value recognized in profit and loss.

Purchases and sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognized on the trade date, that is, the date that we commit to purchase or sell the asset.

Fair Value Measurement

We measure certain of our financial assets, equity investments and financial liabilities at fair value at the end of each of the years or period ended December 31, 2021 and 2022 and September 30, 2023. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by us. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2 – based on valuation techniques for which the lowest level input that is significant to the measurement is observable, either directly or indirectly

- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the Historical Financial Information on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by re-assessing their categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the reporting periods.

In respect of the valuation of level 3 fair value measurement financial assets and liabilities, with reference to the guidance under the "Guidance Note on Director's Duties in the Context of Valuations in Corporate Transactions" issued by the SFC in May 2017 applicable to directors of companies listed on the Stock Exchange, our Directors adopted the following procedures: (i) selected qualified persons with adequate knowledge and conducted valuation on the financial assets and liabilities without readily determinable fair value; (ii) carefully considered available information in assessing the financial data and assumptions including but not limited to risk free interest rate, expected volatility and political, economic and industry conditions; (iii) engaged an independent valuer to appraise the fair value of certain financial assets and liabilities that are significant, provided necessary financial information to the valuer to assess our performed valuation procedures and discussed with the valuer on relevant assumptions; and (iv) reviewed the valuation reports prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis is fair and reasonable and our consolidated financial statements are properly prepared.

Details of the fair valuation measurement of the financial assets and liabilities, particularly the fair value hierarchy, valuation techniques and key inputs, including significant unobservable inputs and the relationship of unobservable inputs to valuation, are disclosed in Note 37 of Appendix I to this Document. The Reporting Accountants have conducted their work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants to express an opinion on Historical Financial Information. This standard requires that the Reporting Accountants plan and perform their work to obtain reasonable assurance about whether the Historical Financial Information as a whole is free from any material misstatement. The Reporting Accountants' opinion on the Historical Financial Information for the Track Record Period as a whole is set out on pages I-1 to I-3 of Appendix I to this Document.

In respect of the valuation of our level 3 fair value measurement financial assets and liabilities, the Joint Sponsors have conducted, among others, the following due diligence work: (i) reviewing relevant notes in the Accountants' Reports as contained in Appendix I to this Document; (ii) discussing with our management to understand the key basis, methodologies and assumptions adopted by us for valuation assessments of level 3 fair value measurement financial assets and liabilities; (iii) reviewing the valuation reports regarding level 3 fair value measurement financial assets and liabilities prepared by the independent valuer; (iv) interviewing the independent valuer to understand, among other things, the methodology, assumptions and key parameters used by such valuer; and (v) discussing with the Reporting Accountants about the work they have performed in relation to the Historical Financial Information in this regard. Based on the due diligence work conducted by the Joint Sponsors as described above, nothing has come to the Joint Sponsors' attention that would cause them to question the valuation of level 3 fair value measurement financial assets and liabilities as set out in Appendix I to this Document.

Share-based Payments

We operate a share award scheme. Our employees (including directors) and our consultants receive remuneration in the form of share-based payments, whereby rendering services in exchange for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair values of our Shares at the grant date. The cost of equity-settled transactions with consultants is measured by reference indirectly to the fair values of the equity instruments agreed to be issued at the dates the counterparties render services as we had rebutted the presumption that the fair values of the services received could be estimated reliably, further details of which are set out in Note 31 of Appendix I to this Document.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average cost basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Income Tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which we operate.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except (i) when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and (ii) in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except (i) when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and (ii) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Our Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of our Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, our Company and our subsidiary incorporated in British Virgin Islands are not subject to any income tax. Our subsidiary incorporated in Hong Kong was not liable for income tax as it did not have any assessable profits arising in Hong Kong during 2021, 2022 and the nine months ended September 30, 2022 and 2023.

PRC corporate income tax has been provided at the rate of 25% on the taxable profits of our PRC subsidiaries for 2021, 2022 and the nine months ended September 30, 2022 and 2023. Certain of our PRC subsidiaries are accredited as a "High and New Technology Enterprise" and were therefore entitled to a preferential income tax rate of 15% for 2021, 2022 and the nine months ended September 30, 2022 and 2023. Such qualifications are subject to review by the relevant tax authority in China for every three years. Certain of our PRC subsidiaries are qualified as small and micro enterprises and were entitled to a preferential corporate income tax rate of 2.5% to 10% during 2021 and 2022 and 5% during 2023, respectively.

See Notes 2.4 and 10 of Appendix I to this Document.

Significant Accounting Judgments and Estimates

The preparation of our historical financial information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty during the Track Record Period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Judgment

Valuation Basis of Equity-settled Transactions with the Consultants

In accounting for equity-settled transactions with the consultants, we had rebutted the presumption that the fair values of the services received could be estimated reliably. Therefore, the fair values of the services received are measured by reference indirectly to the fair values of the equity instruments agreed to be issued which are measured at the dates that the counterparties render services. As the consultancy services are provided continuously throughout the contract period, weighted average fair values are used as an approximation in calculating the fair value of equity instruments, taking into account the fluctuation in equity value during 2021 and 2022 and the nine months ended September 30, 2022 and 2023.

Estimation Uncertainty

Variable Consideration for Volume Rebates

We estimate variable consideration to be included in the transaction price for the sale of products with volume rebates.

Our volume rebates are analyzed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will likely be entitled to a rebate depends on the customer's historical rebate entitlement and accumulated purchases to date.

We update our assessment of expected volume rebates yearly and the sales discount and rebate payables are adjusted accordingly. Estimates of expected volume rebates are sensitive to changes in circumstances and our past experience regarding rebate entitlements may not be representative of a customer's actual rebate entitlements in the future. See Note 3 of Appendix I to this Document.

Useful Lives of Licensed IPs

We have licensed IPs that are primarily used to design and sell pan-entertainment products. We estimate the useful lives of these licensed IPs to be 15 months to ten years based on the contracts and expected economic benefits. However, the actual useful lives may be shorter or longer than management's estimate, depending on the market competition. Periodic review could result in a change in useful lives and therefore amortization expense in future periods.

Fair Value of Convertible Redeemable Preferred Shares and Commitment Derivatives

The fair value of the convertible redeemable preferred shares and commitment derivatives measured at fair value through profit or loss is determined using the valuation techniques, including the discounted cash flow method and the option-pricing method. Such valuation is based on key parameters about risk-free rate, discounts for lack of marketability and volatility, which are subject to uncertainty and might materially differ from the actual results. See Note 27 of Appendix I to this Document.

Fair Value of Unlisted Equity Investments

The unlisted equity investments have been valued based on a market-based valuation technique or a discounted cash flow method. The valuation requires us to determine recent transaction price, volatility, risk-free interest rate, discounts for lack of marketability and the weighted average cost of capital. We classify the fair value of these investments as Level 3. See Note 16 of Appendix I to this Document.

Service Period of the Consultancy Services

We assess the service period of the consultancy services to be provided by the consultants, for which we agreed to settle the consideration by our Shares, based on the progress of the completion of the consultants' services. The service period starts from the date when the consultants have begun rendering services under the mutually agreed consultancy service agreements and ends at the date when the consultants have fulfilled all of their performance targets.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

The following table sets forth a summary of our results of operations for the periods indicated:

	Year ended December 31,		**Nine months ended September 30,**	
	2021	**2022**	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions) (Unaudited)*	*(RMB in millions)*
Revenue	2,298.3	4,131.1	3,652.1	1,951.5
Cost of sales	(963.3)	(1,288.8)	(1,101.3)	(637.2)
Gross profit	1,335.0	2,842.3	2,550.8	1,314.3
Selling and distribution expenses	(181.2)	(375.0)	(283.5)	(296.2)
Administrative expenses	(218.5)	(666.6)	(448.8)	(583.2)
Other income and gains	6.4	44.9	33.6	55.6
Other expenses	(20.3)	(2.3)	(1.2)	(5.7)
Reversal of impairment losses/(impairment losses) on financial assets, net	10.8	(40.3)	(38.6)	(2.5)

	Year ended December 31,		Nine months ended September 30,	
	2021	**2022**	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*
			(Unaudited)	
Operating Profit	932.2	1,803.0	1,812.3	482.3
Finance costs	(1.8)	(5.3)	(3.9)	(5.3)
Fair value changes of financial liabilities at fair value through profit or loss	(909.2)	(1,716.1)	(1,548.2)	(111.6)
Profit before tax	21.2	81.6	260.2	365.4
Income tax expense	(174.4)	(377.6)	(375.4)	(105.2)
Profit/(loss) for the year/period	(153.2)	(296.0)	(115.2)	260.2
Attributable to:				
Owners of the parent	(153.2)	(296.0)	(115.2)	260.2

Non-IFRS Measure

We use adjusted net profit (*non-IFRS measure*) in evaluating our operating results during the Track Record Period, which is not required by or presented in accordance with IFRSs as an additional financial measure to supplement our consolidated financial statements, which are presented in accordance with IFRSs. We believe that the non-IFRS measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted net profit (*non-IFRS measure*) may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

We define adjusted net profit (*non-IFRS measure*) as net loss or profit for the periods adjusted by adding back fair value changes of financial liabilities at fair value through profit or loss, share-based payment expenses and [**REDACTED**] expenses. The following table reconciles our adjusted net profit (*non-IFRS measure*) for the periods presented to the most directly comparable financial measures calculated and presented in accordance with IFRSs, which is net profit or loss for the periods:

	Year ended December 31,		**Nine months ended September 30,**	
	2021	**2022**	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions) (Unaudited)*	*(RMB in millions)*
Reconciliation of net profit/(loss) to adjusted net profit (*non-IFRS measure*)				
Net profit/(loss) for the year/period	(153.2)	(296.0)	(115.2)	260.2
Add:				
– *Fair value changes of financial liabilities at fair value through profit or loss*[(1)]	909.2	1,716.1	1,548.2	111.6
– *Share-based payment expenses*[(2)]	39.4	199.6	134.6	203.3
– [**REDACTED**] *expenses*[(3)]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net profit (*non-IFRS measure*)	795.4	1,619.7	1,567.6	578.1

Notes:

(1) Fair value changes of financial liabilities at fair value through profit or loss primarily represent changes in the fair value of our Series A Preferred Shares and our commitment derivatives relating to the issuance of Series A Preferred Shares, which are affected by changes in the valuation of our Company. We do not expect to record any further fair value changes of financial liabilities at fair value through profit or loss after [**REDACTED**] due to the reclassification of financial liabilities at fair value through profit or loss from liabilities to equity as a result of the conversion of Series A Preferred Shares into Ordinary Shares upon [**REDACTED**]. See "– Indebtedness – Financial Liabilities at Fair Value Through Profit or Loss" and Notes 2.4 and 27 of Appendix I to this Document.

(2) Share-based payment expenses represent the non-cash expenses in relation to our share award to eligible consultants of our Group. See Note 31 of Appendix I to this Document.

[**REDACTED**]

Revenue

Our revenue increased by 79.7% from RMB2,298.3 million in 2021 to RMB4,131.1 million in 2022. Our revenue decreased by 46.6% from RMB3,652.1 million in the nine months ended September 30, 2022 to RMB1,951.5 million in the nine months ended September 30, 2023.

Revenue by Product Category

During the Track Record Period, we generated revenue from sales of (i) toys, including trading cards, figures and other toys, see "Business – Our Brand and Products – Our Product Offerings – Toys;" and (ii) stationery products, see "Business – Our Brand and Products – Our Product Offerings – Stationery Products." During the Track Record Period, a majority of our revenue was generated from sales of trading cards, which amounted to RMB2,169.5 million, RMB3,930.2 million, RMB3,479.7 million and RMB1,675.0 million in 2021, 2022 and the nine months ended September 30, 2022 and 2023, respectively, accounting for 94.4%, 95.1%, 95.3% and 85.8% of our total revenue in the same respective periods.

The following table sets forth a breakdown of our revenue by product category in absolute amount and as a percentage of our total revenue for the periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2021		2022		2022		2023	
	(RMB in millions)	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*
					(Unaudited)			
Toys	2,298.3	100.0	4,110.2	99.5	3,644.0	99.8	1,817.7	93.1
– Trading cards	2,169.5	94.4	3,930.2	95.1	3,479.7	95.3	1,675.0	85.8
– Figures	–	–	–	–	–	–	80.1	4.1
– Other toys(1)	128.8	5.6	180.0	4.4	164.3	4.5	62.6	3.2
Stationery products	–	–	20.9	0.5	8.1	0.2	133.8	6.9
Total	2,298.3	100.0	4,131.1	100.0	3,652.1	100.0	1,951.5	100.0

Note:

(1) Primarily include trading card collection books, badges and stickers.

The following table sets forth a breakdown of our sales volume by product category for the periods indicated:

	Year ended December 31,		Nine months ended September 30,	
	2021	**2022**	**2022**	**2023**
	(sales unit in millions[1])	*(sales unit in millions[1])*	*(sales unit in millions[1])*	*(sales unit in millions[1])*
Toys	1,289.5	2,328.9	2,087.4	1,074.7
– Trading cards	1,270.6	2,286.0	2,056.9	1,039.5
– Figures	–	–	–	17.1
– Other toys[2]	18.9	42.9	30.5	18.1
Stationery products	–	4.8	1.9	31.1

Notes:

(1) Sales volume represents the number of products we sold to our customers. To unify the measurement of the sales volume of each product category at corresponding specifications, sales unit could stand for piece, pack or box, which are the minimum units for product sales.

(2) Primarily include trading card collection books, badges and stickers.

The sales volume of our toys increased from 1,289.5 million sales units in 2021 to 2,328.9 million sales units in 2022, mainly due to the increase in the sales volume of our trading cards. The sales volume of our toys decreased from 2,087.4 million sales units in the nine months ended September 30, 2022 to 1,074.7 million sales units in the same period of 2023, mainly due to the decrease in the sales volume of our trading cards.

The sales volume of trading cards grew significantly in 2022 compared to 2021, benefiting from our continuous efforts in past years in new series roll-outs, IP operations, gamification operations and sales channel penetration in light of the increasing popularity of trading cards in China. The sales volume of our trading cards, however, decreased in the nine months ended September 30, 2023 compared to the same period of 2022, mainly due to our strategic efforts in diversifying product mix and IP matrix to cater to the increasing consumer demand for more diverse product categories and IP content. Evident to our diversification efforts, we branched out into stationery products in 2022 and launched figures in 2023. The sales volume of our products other than trading cards was 18.9 million sales units, 47.7 million sales units and 66.3 million sales units in 2021, 2022 and the nine months ended September 30, 2023, respectively. In addition, the decrease in the sales volume of trading cards also reflected the impact of the public health incidents on overall social activities and general business environment, especially during the period from late 2022 to early 2023. Along with the phasing out of the public health incidents, consumers enjoyed a fuller social experience with our trading cards and the operations of ours and our business partners gradually normalized.

The sales volume of our stationery products rapidly increased during the Track Record Period, primarily due to (i) the increasing consumer demand for our products; and (ii) the increasing sales volume driven by new series roll-outs, in particular pen series themed on an increasing number of IPs.

Revenue by Sales Channel

During the Track Record Period, we generated revenue from (i) distributor channels, see "Business – Sales Network and Marketing – Distributor Channels;" (ii) direct sales channels, see "Business – Sales Network and Marketing – Direct Sales Channels;" and (iii) retail channels, see "Business – Sales Network and Marketing – Retail Channels." During the Track Record Period, a majority of our revenue was generated from distributor channels, which amounted to RMB2,225.0 million, RMB3,826.9 million, RMB3,405.2 million and RMB1,585.0 million in 2021, 2022 and the nine months ended September 30, 2022 and 2023, respectively, accounting for 96.8%, 92.7%, 93.3% and 81.2% of our total revenue in the same respective periods.

The following table sets forth a breakdown of our revenue by sales channel in absolute amount and as a percentage of our total revenue for the periods indicated:

	Year ended December 31,				**Nine months ended September 30,**			
	2021		**2022**		**2022**		**2023**	
	(RMB in millions)	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*
					(Unaudited)			
Distributor channels	2,225.0	96.8	3,826.9	92.7	3,405.2	93.3	1,585.0	81.2
Direct sales channels	17.6	0.8	215.8	5.2	180.1	4.9	191.4	9.8
Retail channels	55.7	2.4	88.4	2.1	66.8	1.8	175.1	9.0
Total	2,298.3	100.0	4,131.1	100.0	3,652.1	100.0	1,951.5	100.0

Cost of Sales

Our cost of sales amounted to RMB963.3 million, RMB1,288.8 million, RMB1,101.3 million and RMB637.2 million in 2021, 2022 and the nine months ended September 30, 2022 and 2023, respectively. During the Track Record Period, our cost of sales primarily consisted of (i) direct material costs, mainly representing costs for purchasing paper, ink and other raw materials; and (ii) licensing fees paid to our IP partners. For details of our IP license arrangements, see "Business – IP Matrix and Operations – Our IP Operations – IP Development and Commercialization – Collaboration with IP Partners."

The following table sets forth a breakdown of our cost of sales by nature in absolute amount and as a percentage of our total revenue for the periods indicated:

	Year ended December 31,				**Nine months ended September 30,**			
	2021		**2022**		**2022**		**2023**	
	(RMB in millions)	*(% of total revenue)*	*(RMB in millions)*	*(% of total revenue)*	*(RMB in millions)*	*(% of total revenue)*	*(RMB in millions)*	*(% of total revenue)*
					(Unaudited)			
Direct material costs	699.3	30.4	932.7	22.6	775.6	21.2	388.9	19.9
Licensing fees	166.2	7.2	210.9	5.1	203.4	5.6	113.4	5.8
Direct labor costs	43.5	1.9	58.0	1.4	51.5	1.4	55.4	2.8
Depreciation and amortization	20.4	0.9	42.7	1.0	30.7	0.8	43.0	2.2
Other production costs	33.9	1.5	44.5	1.1	40.1	1.2	36.5	2.0
Total	963.3	41.9	1,288.8	31.2	1,101.3	30.2	637.2	32.7

Gross Profit and Gross Profit Margin

Our gross profit amounted to RMB1,335.0 million, RMB2,842.3 million, RMB2,550.8 million and RMB1,314.3 million in 2021, 2022 and the nine months ended September 30, 2022 and 2023, respectively. Our gross profit margin was 58.1%, 68.8%, 69.8% and 67.3% in 2021, 2022 and the nine months ended September 30, 2022 and 2023, respectively.

The following table sets forth a breakdown of our gross profit and gross profit margin by product category for the periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2021		2022		2022		2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB in millions)	*(%)*	*(RMB in millions)*	*(%)*	*RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*
					(Unaudited)			
Toys	1,335.0	58.1	2,831.9	68.9	2,546.8	69.9	1,261.8	69.4
– Trading cards	1,290.0	59.5	2,748.3	69.9	2,467.1	70.9	1,193.2	71.2
– Figures	–	–	–	–	–	–	34.6	43.2
– Other toys[1]	45.0	34.9	83.6	46.4	79.7	48.5	34.0	54.3
Stationery products	–	–	10.4	49.8	4.0	49.4	52.5	39.2
Total	1,335.0	58.1	2,842.3	68.8	2,550.8	69.8	1,314.3	67.3

Note:

(1) Primarily include trading card collection books, badges and stickers.

Selling and Distribution Expenses

Our selling and distribution expenses amounted to RMB181.2 million, RMB375.0 million, RMB283.5 million and RMB296.2 million in 2021, 2022 and the nine months ended September 30, 2022 and 2023, respectively. During the Track Record Period, our selling and distribution expenses primarily consisted of (i) labor costs, mainly representing salaries, bonuses and other benefits relating to our sales staff; and (ii) advertising and marketing expenses, mainly representing expenses incurred for our online and offline marketing and promotion activities.

The following table sets forth a breakdown of our selling and distribution expenses in absolute amount and as a percentage of our total revenue for the periods indicated:

	Years ended December 31,				Nine months ended September 30,			
	2021		2022		2022		2023	
	(RMB in millions)	*(% of total revenue)*	*(RMB in millions)*	*(% of total revenue)*	*(RMB in millions)*	*(% of total revenue)*	*(RMB in millions)*	*(% of total revenue)*
					(Unaudited)			
Labor costs	47.5	2.1	142.5	3.4	103.2	2.8	120.9	6.2
Advertising and marketing expenses	87.8	3.8	107.0	2.6	87.4	2.4	70.6	3.6
Depreciation and amortization	5.9	0.3	60.7	1.5	40.4	1.1	49.4	2.5
Transportation and logistics expenses	14.3	0.6	23.6	0.6	22.1	0.6	17.5	0.9
Rental expenses	7.2	0.3	15.7	0.4	11.1	0.3	11.9	0.6
Others[(1)]	18.5	0.8	25.5	0.6	19.3	0.5	25.9	1.3
Total	181.2	7.9	375.0	9.1	283.5	7.7	296.2	15.1

Note:

(1) Primarily include travel expenses, office expenses and service fees.

Administrative Expenses

Our administrative expenses amounted to RMB218.5 million, RMB666.6 million, RMB448.8 million and RMB583.2 million in 2021, 2022 and the nine months ended September 30, 2022 and 2023, respectively. During the Track Record Period, our administrative expenses primarily consisted of (i) research and development expenses, mainly relating to the development and upgrade of our products, proprietary IPs, production technologies and information systems; (ii) labor costs, mainly representing salaries, bonuses and other benefits relating to our administrative staff; (iii) depreciation and amortization expenses, mainly relating to our office buildings, office furniture and devices; and (iv) share-based payment expenses, representing the non-cash expenses in relation to our share award to eligible consultants of our Group. See Note 31 of Appendix I to this Document.

The following table sets forth a breakdown of our administrative expenses in absolute amount and as a percentage of our total revenue for the periods indicated:

	Year ended December 31,				**Nine months ended September 30,**			
	2021		**2022**		**2022**		**2023**	
	(RMB in millions)	*(% of total revenue)*	*(RMB in millions)*	*(% of total revenue)*	*(RMB in millions)*	*(% of total revenue)*	*(RMB in millions)*	*(% of total revenue)*
					(Unaudited)			
Research and development expenses	108.1	4.7	250.7	6.1	161.1	4.4	122.9	6.3
Share-based payment expenses	39.4	1.7	199.6	4.8	134.6	3.7	203.3	10.4
Labor costs	34.5	1.5	89.2	2.2	63.6	1.7	111.2	5.7
Depreciation and amortization	15.3	0.7	57.3	1.4	39.5	1.1	59.0	3.0
Service fees	9.3	0.4	27.5	0.7	16.5	0.5	32.3	1.7
Office and travel expenses	6.6	0.3	14.7	0.4	9.5	0.3	21.7	1.1
Others[(1)]	5.3	0.2	27.6	0.7	24.0	0.7	32.8	1.7
Total	218.5	9.5	666.6	16.3	448.8	12.4	583.2	29.9

Note:

(1) Primarily include rental expenses, sample expenses, express fees and [**REDACTED**] expenses. In particular, the [**REDACTED**] expenses amounted to nil, nil, nil and RMB3.0 million in 2021, 2022 and the nine months ended September 30, 2022 and 2023, respectively.

Other Income and Gains

We recorded other income and gains of RMB6.4 million, RMB44.9 million, RMB33.6 million and RMB55.6 million in 2021, 2022 and the nine months ended September 30, 2022 and 2023, respectively. During the Track Record Period, our other income primarily consisted of (i) bank interest income generated from our bank deposits; and (ii) government grants and subsidies.

The following table sets forth a breakdown of our other income and gains for the periods indicated:

	Year ended December 31,		Nine months ended September 30,	
	2021	**2022**	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*	*(RMB in millions)*
Other income				
Bank interest income	1.8	27.4	20.7	32.9
Government grants and subsidies				
– related to income	2.9	9.3	7.3	16.1
– related to assets	–	1.4	1.1	1.1
Others	0.5	4.1	2.4	4.4
	5.2	42.2	31.5	54.5
Gains				
Foreign exchange differences, net	1.2	1.3	1.3	–
Gain arising from early termination of leases	–	1.4	0.8	1.1
	1.2	2.7	2.1	1.1
Total	6.4	44.9	33.6	55.6

Other Expenses

We had other expenses of RMB20.3 million, RMB2.3 million, RMB1.2 million and RMB5.7 million in 2021, 2022 and the nine months ended September 30, 2022 and 2023, respectively, mainly representing expenses incurred for disposal of items of property, plant and equipment and donation expenses.

Net Reversal of Impairment Losses/(Impairment Losses) on Financial Assets

We had net reversal of impairment losses on financial assets of RMB10.8 million in 2021, primarily due to the collection of certain trade receivables on which expected credit allowance were made in 2020. We had net impairment losses on financial assets, primarily trade and other receivables, of RMB40.3 million, RMB38.6 million and RMB2.5 million in 2022 and the nine months ended September 30, 2022 and 2023, respectively. Such impairment losses were primarily related to (i) our expected credit loss allowance on trade receivables relating to a customer, see "– Discussion of Selected Items from the Consolidated Statements of Financial Position – Trade Receivables;" and (ii) expected credit loss allowance on certain deposits in relation to our terminated collaboration projects with certain OEM providers, see "– Discussion of Selected Items from the Consolidated Statements of Financial Position – Prepayments, Other Receivables and Other Assets."

Finance Costs

We had finance costs of RMB1.8 million, RMB5.3 million, RMB3.9 million and RMB5.3 million in 2021, 2022 and the nine months ended September 30, 2022 and 2023, respectively, representing interest on lease liabilities and interest-bearing bank borrowings. See "– Indebtedness – Lease Liabilities" and "– Indebtedness – Interest-bearing Bank Borrowings."

Fair Value Changes of Financial Liabilities at Fair Value through Profit or Loss

During the Track Record Period, our fair value changes of financial liabilities at fair value through profit of loss primarily represented changes in the fair value of our Series A Preferred Shares and our commitment derivatives relating to the issuance of Series A Preferred Shares. See "– Indebtedness – Financial Liabilities at Fair Value Through Profit or Loss" and Notes 2.4 and 27 of Appendix I to this Document. We recorded fair value loss of financial liabilities at fair value through profit or loss of RMB909.2 million, RMB1,716.1 million, RMB1,548.2 million and RMB111.6 million in 2021, 2022 and the nine months ended September 30, 2022 and 2023, respectively.

Income Tax Expense

Our income tax expense amounted to RMB174.4 million, RMB377.6 million, RMB375.4 million and RMB105.2 million in 2021, 2022 and the nine months ended September 30, 2022 and 2023, respectively. See "– Critical Accounting Policies and Estimates – Significant Accounting Policies – Income Tax."

During the Track Record Period and up to the Latest Practicable Date, we had made all the required tax filings with the relevant tax authorities in China, and we were not aware of any outstanding or potential disputes with such tax authorities.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Nine Months Ended September 30, 2023 Compared with Nine Months Ended September 30, 2022

Revenue

Revenue by Product Category

Our revenue decreased by 46.6% from RMB3,652.1 million in the nine months ended September 30, 2022 to RMB1,951.5 million in the same period of 2023, primarily due to the decrease in revenue generated from sales of toys, partially offset by the increase in revenue generated from sales of stationery products.

Toys. Our revenue from sales of toys decreased by 50.1% from RMB3,644.0 million in the nine months ended September 30, 2022 to RMB1,817.7 million in the same period of 2023, primarily due to a decrease in revenue of trading cards from RMB3,479.7 million to RMB1,675.0 million, corresponding to a decrease in their sales volume during these periods. The sales volume of trading cards grew significantly in 2022 compared to 2021, benefiting from our continuous efforts in past years in new series roll-outs, IP operations, gamification operations and sales channel penetration in light of the increasing popularity of trading cards in China. The sales volume of our trading cards, however, decreased in the nine months ended September 30, 2023 compared to the same period of 2022, mainly due to our strategic efforts in diversifying product mix and IP matrix to cater to the increasing consumer demand for more diverse product categories and IP content. Evident to our diversification efforts, we branched out into stationery products in 2022 and launched figures in 2023. Our revenue generated from sales of products other than trading cards was RMB128.8 million, RMB200.9 million and RMB276.5 million in 2021, 2022 and the nine months ended September 30, 2023, respectively. In addition, the decrease in the sales volume of trading cards also reflected the impact of the public health incidents on overall social activities and general business environment, especially during the period from late 2022 to early 2023. Along with the phasing out of the public health incidents, consumers enjoyed a fuller social experience with our trading cards and the operations of ours and our business partners gradually normalized.

Stationery products. Our revenue from sales of stationery products increased significantly from RMB8.1 million in the nine months ended September 30, 2022 to RMB133.8 million in the same period of 2023, primarily due to (i) the increasing consumer demand for our products; and (ii) the increasing sales volume of stationery products new series roll-outs, in particular pen series themed on an increasing number of IPs.

Revenue by Sales Channel

Our revenue decreased by 46.6% from RMB3,652.1 million in the nine months ended September 30, 2022 to RMB1,951.5 million in the same period of 2023, primarily due to the decrease in our revenue from distributor channels by 53.5% from RMB3,405.2 million in the nine months ended September 30, 2022 to RMB1,585.0 million in the same period of 2023, and such decrease was generally in line with the overall drop in our revenue generated from toys. On the other hand, our revenue from direct sales and retail channels increased primarily due to our enhanced efforts in sales channel diversification and deepened penetration in such channels.

Cost of Sales

Our cost of sales decreased by 42.1% from RMB1,101.3 million in the nine months ended September 30, 2022 to RMB637.2 million in the same period of 2023, primarily due to (i) the decrease in direct material costs, which decreased by 49.9% from RMB775.6 million in the nine months ended September 30, 2022 to RMB388.9 million in the same period of 2023, mainly as a result of the decreased volume of raw materials that we procured corresponding to our decreased sales volume; and (ii) the decrease in licensing fees paid to IP partners, which was in line with our decreased sales volume.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 48.5% from RMB2,550.8 million in the nine months ended September 30, 2022 to RMB1,314.3 million in the same period of 2023, primarily due to the decrease in the gross profit of our toys. Our gross profit margin slightly decreased from 69.8% in the nine months ended September 30, 2022 to 67.3% in the same period of 2023, primarily due to the increased revenue contribution from stationery products that typically had a lower gross profit margin compared to that of toys.

Toys. The gross profit of our toy products decreased by 50.5% from RMB2,546.8 million in the nine months ended September 30, 2022 to RMB1,261.8 million in the same period of 2023, as a result of the decline in the sales volume of toys. The gross profit margin of our toy products remained relatively stable at 69.9% and 69.4% in the nine months ended September 30, 2022 and 2023, respectively.

Stationery products. The gross profit of our stationery products increased significantly from RMB4.0 million in the nine months ended September 30, 2022 to RMB52.5 million in the same period of 2023, as a result of the increase in the sales volume of stationery products. The gross profit margin of our stationery products decreased from 49.4% in the nine months ended September 30, 2022 to 39.2% in the same period of 2023, mainly because our Yiwu Production Base for stationery products commenced operation in March 2023 and took time at its growth stage before achieving cost-effective production at scale.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 4.5% from RMB283.5 million in the nine months ended September 30, 2022 to RMB296.2 million in the same period of 2023, primarily due to the increase in labor costs resulted from an increasing number of sales staff in efforts to support our penetration in our sales channels, in particular direct sales channels.

Administrative Expenses

Our administrative expenses increased by 29.9% from RMB448.8 million in the nine months ended September 30, 2022 to RMB583.2 million in the same period of 2023, primarily due to (i) the increase in labor costs attributable to newly-hired administrative staff to support our business development; (ii) the increase in depreciation and amortization expenses relating to our increased number of office buildings, office furniture and devices catering to our business development needs; (iii) the increase in service fees, mainly relating to the engagement of advisors for the establishment of new production bases and deployment of information systems, as well as the increase in consulting service fees paid to legal and financial advisors; and (iv) the increase in the share-based payment expenses, mainly due to the increase in the valuation of our Company, based on which the fair value of the services provided by the eligible consultants was measured. Such increases were partially offset by the decrease in research and development expenses, primarily because we reduced the material related costs in connection with our research and development activities.

Other Income and Gains

Our other income and gains increased by 65.5% from RMB33.6 million in the nine months ended September 30, 2022 to RMB55.6 million in the same period of 2023, primarily due to the increase in bank interest income as a result of our increased cash and cash equivalents.

Other Expenses

Our other expenses increased significantly from RMB1.2 million in the nine months ended September 30, 2022 to RMB5.7 million in the same period of 2023, primarily because we increasingly sponsored charitable and other public welfare activities.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets decreased by 93.5% from RMB38.6 million in the nine months ended September 30, 2022 to RMB2.5 million in the same period of 2023, primarily because in 2022 we made (i) expected credit loss allowance on trade receivables relating to a customer, see "– Discussion of Selected Items from the Consolidated Statements of Financial Position – Trade Receivables;" and (ii) expected credit loss allowance on certain deposits in relation to our terminated collaboration projects with certain OEM providers, see "– Discussion of Selected Items from the Consolidated Statements of Financial Position – Prepayments, Other Receivables and Other Assets."

Finance Costs

Our finance costs increased by 35.9% from RMB3.9 million in the nine months ended September 30, 2022 to RMB5.3 million in the same period of 2023, primarily due to the increase in our interest on bank borrowings, as we borrowed interest-bearing bank loans in December 2022. See "– Indebtedness – Interest-bearing Bank Borrowings."

Fair Value Changes of Financial Liabilities at Fair Value through Profit or Loss

Our fair value loss of financial liabilities at fair value through profit or loss decreased by 92.8% from RMB1,548.2 million in the nine months ended September 30, 2022 to RMB111.6 million in the same period of 2023, primarily due to the lower increase in the fair value of our Series A Preferred Shares in the nine months ended September 30, 2023. See "– Indebtedness – Financial Liabilities at Fair Value Through Profit or Loss."

Income Tax Expense

Our income tax expense decreased by 72.0% from RMB375.4 million in the nine months ended September 30, 2022 to RMB105.2 million in the same period of 2023, primarily due to the decrease in our taxable profit from operations.

Profit/(Loss) for the Period

As a result of the foregoing, our loss for the period of RMB115.2 million in the nine months ended September 30, 2022 changed to profit for the period of RMB260.2 million in the same period of 2023.

Year ended December 31, 2022 Compared with Year Ended December 31, 2021

Revenue

Revenue by Product Category

Our revenue increased by 79.7% from RMB2,298.3 million in 2021 to RMB4,131.1 million in 2022, primarily due to the increase in revenue generated from sales of toys.

Toys. Our revenue from sales of toys increased by 78.8% from RMB2,298.3 million in 2021 to RMB4,110.2 million in 2022, primarily due to the increase in revenue generated from sales of trading cards from RMB2,169.5 million in 2021 to RMB3,930.2 million in 2022. Such increase was primarily due to the increase in the sales volume of our trading cards benefiting from our continuous efforts in past years in new series roll-outs, IP operations, gamification operations and sales channel penetration in light of the increasing popularity of trading cards in China.

Stationery products. We had revenue from sales of stationery products of RMB20.9 million in 2022 compared to nil in 2021, because we have branched out into stationery products to roll out products such as pens and notebooks since 2022.

Revenue by Sales Channel

Our revenue increased by 79.7% from RMB2,298.3 million in 2021 to RMB4,131.1 million in 2022, primarily due to the increase in revenue from distributor channels by 72.0% from RMB2,225.0 million in 2021 to RMB3,826.9 million in 2022. In addition, our revenue from direct sales channels increased significantly from RMB17.6 million in 2021 to RMB215.8 million in 2022, and our revenue from retail channels increased by 58.7% from RMB55.7 million in 2021 to RMB88.4 million in 2022. Such increases were generally in line with the increase in our revenue generated from toys driven by the growing and particularly strong consumer demand and the ramp-up of the popularity of trading cards. Such increases also benefited from our enhanced efforts in sales channel diversification and deepened penetration in these channels.

Cost of Sales

Our cost of sales increased by 33.8% from RMB963.3 million in 2021 to RMB1,288.8 million in 2022, primarily due to the increase in the direct material costs. Our direct material cost increased by 33.4% from RMB699.3 million in 2021 to RMB932.7 million in 2022, mainly driven by the increased volume of raw materials that we procured to produce trading cards in response to increasing market demand.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased significantly from RMB1,335.0 million in 2021 to RMB2,842.3 million in 2022, primarily due to the increase in the gross profit of our toys. Our gross profit margin increased from 58.1% in 2021 to 68.8% in 2022, primarily because (i) we improved our production efficiency as a result of continuous efforts in introducing advanced production equipment and improving our production technologies; and (ii) we enhanced our procurement cost control benefiting from economies of scale, and our direct material costs as a percentage of revenue decreased from 30.4% in 2021 to 22.6% in 2022.

Toys. The gross profit of our toy products increased significantly from RMB1,335.0 million in 2021 to RMB2,831.9 million in 2022 as a result of the increase in the sales volume of toys. The gross profit margin of our toy products increased from 58.1% in 2021 to 68.9%

in 2022, primarily because (i) we improved our production efficiency as a result of continuous efforts in introducing advanced production equipment and improving our production technologies; and (ii) we enhanced procurement cost control benefiting from economies of scales.

Stationery products. The gross profit of our stationery products increased from nil in 2021 to RMB10.4 million in 2022, and the gross profit margin of our stationery products increased from nil in 2021 to 49.8% in 2022, because we have branched out into stationery products to roll out products such as pens and notebooks since 2022.

Selling and Distribution Expenses

Our selling and distribution expenses increased significantly from RMB181.2 million in 2021 to RMB375.0 million in 2022, primarily due to (i) the increase in labor costs relating to our sales staff, mainly resulting from the increased number of sales staff and the raised salary scale to attract and retain skilled personnel who support our expansion and penetration in offline and online sales channels; and (ii) the increase in depreciation and amortization expenses relating to our offline flagship stores, furniture and devices as a result of the increasing needs of leases, decoration or device from an increasing number of offline flagship stores and vending machines.

Administrative Expenses

Our administrative expenses increased significantly from RMB218.5 million in 2021 to RMB666.6 million in 2022, primarily due to (i) the increase in research and development expenses mainly as a result of our strengthened efforts in development and upgrade of our product lines, production technologies and information systems; (ii) the increase in labor costs relating to our administrative staff as a result of the increased number of administrative staff and the raised salary scale, which was in line with our business development; (iii) the increase in depreciation and amortization expenses relating to our increased number of office buildings, office furniture and devices as a result of business expansion; and (iv) the increase in the share-based payment expenses, mainly due to the increase in the valuation of our Company, based on which the fair value of the services provided by the eligible consultants was measured.

Other Income and Gains

Our other income and gains increased significantly from RMB6.4 million in 2021 to RMB44.9 million in 2022, primarily due to the increase in bank interest income as a result of our increased cash and cash equivalents.

Other Expenses

Our other expenses decreased by 88.7% from RMB20.3 million in 2021 to RMB2.3 million in 2022, primarily due to the decrease in expenses incurred for disposal of items of property, plant and equipment.

Net Reversal of Impairment Losses/(Impairment Losses) on Financial Assets

We had net impairment losses on financial assets of RMB40.3 million in 2022, compared to net reversal of impairment loss on financial assets of RMB10.8 million in 2021, primarily because in 2022 we made (i) expected credit loss allowance on trade receivables relating to a customer, see "– Discussion of Selected Items from the Consolidated Statements of Financial Position – Trade Receivables;" and (ii) expected credit loss allowance on certain deposits in relation to our terminated collaboration projects with certain OEM providers, see "– Discussion of Selected Items from the Consolidated Statements of Financial Position – Prepayments, Other Receivables and Other Assets."

Finance Costs

Our finance costs increased significantly from RMB1.8 million in 2021 to RMB5.3 million in 2022, primarily due to the increase in our interest on lease liabilities as a result of the increased number of leases for production bases, offices and offline flagship stores to satisfy our business expansion needs. See "– Indebtedness – Lease Liabilities."

Fair Value Changes of Financial Liabilities at Fair Value through Profit or Loss

Our fair value loss of financial liabilities at fair value through profit or loss increased by 88.7% from RMB909.2 million in 2021 to RMB1,716.1 million in 2022, primarily due to the higher increase in the fair value of our Series A Preferred Shares. See "– Indebtedness – Financial Liabilities at Fair Value Through Profit or Loss."

Income Tax Expense

Our income tax expense increased significantly from RMB174.4 million in 2021 to RMB377.6 million in 2022, in line with the increase in our taxable profit from operations.

Loss for the Year

As a result of the foregoing, our loss for the year increased by 93.2% from RMB153.2 million in 2021 to RMB296.0 million in 2022.

DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth selected information from our consolidated statements of financial position as of the dates indicated:

	As of December 31,		As of September 30,
	2021	2022	2023
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*
Non-current assets			
Property, plant and equipment	284.9	830.9	2,118.5
Right-of-use assets	132.7	219.0	183.3
Other intangible assets	11.5	16.7	16.8
Financial assets at fair value through profit or loss	–	12.0	28.7
Other non-current assets	481.4	1,206.0	179.2
Deferred tax assets	14.0	40.9	50.1
Long-term bank deposits	–	691.2	695.3
Total non-current assets	924.5	3,016.7	3,271.9
Current assets			
Inventories	232.8	230.3	340.6
Trade receivables	66.3	45.0	82.8
Prepayments, other receivables and other assets	202.6	355.5	224.3
Cash and cash equivalents	1,091.1	594.2	980.3
Total current assets	1,592.8	1,225.0	1,628.0

	As of December 31,		As of September 30,
	2021	2022	2023
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*
Current liabilities			
Trade and bills payables	118.4	146.5	247.4
Other payables and accruals	372.9	242.5	237.8
Interest-bearing bank borrowings	–	50.0	50.0
Tax payables	124.0	100.2	52.2
Contract liabilities	39.3	60.1	131.2
Financial liabilities at fair value through profit or loss	1,768.7	3,484.8	3,596.4
Lease liabilities	33.9	58.4	56.5
Total current liabilities	2,457.2	4,142.5	4,371.5
Net current liabilities	(864.4)	(2,917.5)	(2,743.5)
Non-current liabilities			
Deferred tax liabilities	45.0	160.2	161.1
Deferred income	–	12.9	11.8
Lease liabilities	70.7	79.0	44.7
Total non-current liabilities	115.7	252.1	217.6
Net assets/(liabilities)	(55.6)	(152.9)	310.8
Equity			
Equity attributable to owners of the parent			
Share capital	–	–	–
Reserves	(55.6)	(152.9)	310.8
Total equity/(deficiency in assets)	(55.6)	(152.9)	310.8

Property, Plant and Equipment

Our property, plant and equipment primarily consisted of (i) construction in progress, mainly representing our production bases and office buildings that were under construction or decoration; (ii) equipment, mainly representing production equipment; and (iii) buildings, mainly representing our production bases and office buildings.

The following table sets forth a breakdown of our property, plant and equipment as of the dates indicated:

	As of December 31,		As of September 30,
	2021	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*
Construction in progress	19.4	131.3	1,273.7
Equipment	153.4	290.2	402.3
Buildings	6.4	271.3	256.1
Leasehold improvements	63.0	87.7	134.0
Furniture, fixture and device	26.0	31.8	29.1
Motor vehicle	16.7	18.6	23.3
Total	284.9	830.9	2,118.5

Our property, plant and equipment increased significantly from RMB284.9 million as of December 31, 2021 to RMB830.9 million as of December 31, 2022, primarily due to (i) the increase in buildings as a result of our purchase of office buildings; (ii) the increase in equipment to enhance our production capabilities; and (iii) the increase in construction in progress as a result of our business expansion plan to establish new production bases.

Our property, plant and equipment increased significantly from RMB830.9 million as of December 31, 2022 to RMB2,118.5 million as of September 30, 2023, primarily due to (i) the increase in construction in progress as a result of the reclassification of prepayments for certain office buildings from other non-current assets to construction in progress due to the commencement of decoration, see "– Discussion of Selected Items from the Consolidated Statements of Financial Position – Other Non-current Assets;" (ii) the increase in equipment to enhance our production capabilities; and (iii) the increase in leasehold improvements as a result of the decoration for our leased offices, production bases and offline flagship stores.

Right-of-use Assets

Our right-of-use assets primarily relate to (i) office premises, retail stores and plants; and (ii) leasehold land for production bases. The following table sets forth a breakdown of our right-of-use assets as of the dates indicated:

	As of December 31,		As of September 30,
	2021	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*
Office premises, retail stores and plants	103.8	134.6	98.6
Leasehold land	28.9	84.4	84.7
Total	132.7	219.0	183.3

Our right-of-use assets increased by 65.0% from RMB132.7 million as of December 31, 2021 to RMB219.0 million as of December 31, 2022, primarily due to (i) the increase in right-of-use assets relating to leasehold land for production bases; and (ii) the increase in right-of-use assets relating to office premises, retail stores and plants, mainly resulting from the increased number of leases for our offices and offline flagship stores to satisfy our business expansion needs.

Our right-of-use assets decreased by 16.3% from RMB219.0 million as of December 31, 2022 to RMB183.3 million as of September 30, 2023, primarily due to the depreciation of right-of-use assets.

Other Non-current Assets

Our other non-current assets mainly represented prepayments for property, plant and equipment. Our other non-current assets increased significantly from RMB481.4 million as of December 31, 2021 to RMB1,206.0 million as of December 31, 2022, primarily due to the increase in our prepayments for office buildings, equipment and devices.

Our other non-current assets decreased by 85.1% from RMB1,206.0 million as of December 31, 2022 to RMB179.2 million as of September 30, 2023, primarily due to the reclassification of prepayments for certain office buildings from other non-current assets to construction in progress due to the commencement of decoration, see "– Discussion of Selected Items from the Consolidated Statements of Financial Position – Property, Plant and Equipment."

Inventories

Our inventories primarily consisted of (i) raw materials such as paper and ink; (ii) work in progress, mainly representing our semi-finished products of toys and stationery products; and (iii) finished goods, including toys and stationery products. The following table sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31,		As of September 30,
	2021	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*
Raw materials	157.6	55.8	77.5
Work in progress	6.7	20.8	21.0
Finished goods	72.5	166.4	266.1
Provision for impairment of inventories	(4.0)	(12.7)	(24.0)
Total	232.8	230.3	340.6

Our inventories amounted to RMB232.8 million and RMB230.3 million as of December 31, 2021 and 2022, respectively. Our raw materials decreased by 64.6% from RMB157.6 million as of December 31, 2021 to RMB55.8 million as of December 31, 2022, while our work in progress increased significantly from RMB6.7 million as of December 31, 2021 to RMB20.8 million as of December 31, 2022, and our finished goods increased significantly from RMB72.5 million as of December 31, 2021 to RMB166.4 million as of December 31, 2022, primarily because (i) we enhanced our production capacity and the raw materials were utilized for production into work in progress or finished goods; and (ii) the outbound logistics for finished goods were impacted by the public health incidents.

Our inventories increased by 47.9% from RMB230.3 million as of December 31, 2022 to RMB340.6 million as of September 30, 2023, primarily due to the increase in finished goods from RMB166.4 million as of December 31, 2022 to RMB266.1 million as of September 30, 2023. Such increase was mainly due to our increasingly diverse product offerings with expanded product categories and new series roll-outs.

The following table sets forth the turnover days of our inventories for the periods indicated:

	Year ended December 31,		Nine Months ended September 30,
	2021	**2022**	**2023**
	(days)	*(days)*	*(days)*
Inventory turnover days(1)	85.1	67.0	128.7

Note:

(1) Inventory turnover days for a year/period equal the average of the opening and closing balance of gross inventories (before provision for impairment) divided by cost of sales for the relevant year/period and multiplied by the number of days in the relevant year/period, which is 360 days for each year and 270 days for nine months.

Our inventory turnover days decreased from 85.1 days in 2021 to 67.0 days in 2022, primarily driven by the increasing sales and market demand for our products. Our inventory turnover days increased from 67.0 days as of December 31, 2022 to 128.7 days as of September 30, 2023, primarily due to (i) our increasingly diverse product offerings with expanded product categories and new series roll-outs; and (ii) the decreased trading card sales that slowed down the inventory consumption.

As of November 30, 2023, approximately RMB108.8 million, or 29.8%, of our inventories as of September 30, 2023 had been utilized or sold.

Trade Receivables

Our trade receivables represented the outstanding amounts receivable from our customers. The following table sets forth a breakdown of our trade receivables as of the dates indicated:

	As of December 31,		As of September 30,
	2021	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*
Trade receivables	66.4	67.3	107.6
Impairment	(0.1)	(22.3)	(24.8)
Trade receivables, net	66.3	45.0	82.8

Our trade receivables decreased by 32.1% from RMB66.3 million as of December 31, 2021 to RMB45.0 million as of December 31, 2022, primarily because our impairment loss allowance on trade receivables increased significantly from RMB0.1 million as of December 31, 2021 to RMB22.3 million as of December 31, 2022, mainly because we made expected credit loss allowance on trade receivables relating to a customer.

Our trade receivables increased by 84.0% from RMB45.0 million as of December 31, 2022 to RMB82.8 million as of September 30, 2023, primarily due to our collaboration with an increasing number of KA partners, to whom we typically grant a credit term instead of requiring payments before delivery.

The following table sets forth an aging analysis of our trade receivables (net of impairment) based on the invoice dates as of the dates indicated:

	As of December 31,		As of September 30,
	2021	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*
Within 1 month	55.3	22.5	36.7
1 to 3 months	11.0	16.6	34.0
3 to 6 months	–	4.9	3.1
6 months to 1 year	–	1.0	9.0
Total	66.3	45.0	82.8

We seek to maintain strict control over our outstanding trade receivables and have dedicated credit risk management staff to control and mitigate credit risk. Our senior management assess the recoverability of trade receivables on a regular basis taking into account historical settlement records of customers. During the Track Record Period, 100.0%, 97.8% and 89.1% of our trade receivables (net of impairment) as of December 31, 2021, 2022 and September 30, 2023, respectively, were aged within six months. The trade receivables aged between six months to one year increased from RMB1.0 million as of December 31, 2022 to RMB9.0 million as of September 30, 2023, primarily as a result of our collaboration with certain KA partners with relatively long settlement terms.

The following table sets forth the turnover days of our trade receivables for the periods indicated:

	Year ended December 31,		Nine months ended September 30,
	2021	**2022**	**2023**
	(days)	*(days)*	*(days)*
Trade receivables turnover days[(1)]	7.7	5.8	12.1

Note:

(1) Trade receivables turnover days for a year/period equal the average of opening and closing balance of gross trade receivables (before provision for impairment) for the relevant year/period divided by revenue for the relevant year/period and multiplied by the number of days in the relevant year/period, which is 360 days for each year and 270 days for nine months.

Our trade receivables turnover days decreased from 7.7 days in 2021 to 5.8 days in 2022, primarily due to our enhanced credit risk management. Our trade receivable turnover days increased from 5.8 days in 2022 to 12.1 days in the nine months ended September 30, 2023, primarily due to our collaboration with an increasing number of KA partners, to whom we typically grant a credit term instead of requiring payments before delivery.

As of November 30, 2023, approximately RMB53.0 million, or 49.3%, of our trade receivables as of September 30, 2023, had been settled.

Prepayments, Other Receivables and Other Assets

Our prepayments, other receivables and other assets primarily consisted of (i) other receivables due from related parties for issuance of Ordinary Shares, mainly relating to the arrangement of the Reorganization, which will be settled prior to the [**REDACTED**]; (ii) prepayments to suppliers, mainly representing prepayments to IP partners and raw material suppliers; (iii) deposits for leases and collaboration projects with certain OEM providers; and (iv) prepaid expenses, mainly representing prepaid OEM fees, utilities and advertising and marketing service fees. The following table sets forth a breakdown of our prepayments, other receivables and other assets as of the dates indicated:

	As of December 31,		As of September 30,
	2021	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*
Value-added tax recoverable	1.8	94.1	11.9
Prepayments to suppliers	32.8	68.3	38.7
Deposits	8.6	43.4	37.0
Prepaid expenses	26.6	36.6	28.6
Due from related parties	5.8	7.0	1.9
Due from related parties for issuance of Ordinary Shares	122.2	122.2	122.2
Due from shareholders for issuance of convertible redeemable preferred shares	3.8	–	–
Others	2.5	3.6	3.7
Subtotal	204.1	375.2	244.0
Impairment	(1.5)	(19.7)	(19.7)
Total	202.6	355.5	224.3

Our prepayments, other receivables and other assets increased by 75.5% from RMB202.6 million as of December 31, 2021 to RMB355.5 million as of December 31, 2022, primarily due to (i) an increase in value-added tax recoverable in relation to our increased purchase of office buildings and equipment; (ii) an increase in prepayments to suppliers, mainly resulting from the increased volume of raw materials that we procured to produce trading cards in response to increasing market demand; and (iii) an increase in deposits for leases, mainly resulting from the increased number of leases for our offline flagship stores. Our impairment loss allowance on prepayments, other receivables and other assets increased significantly from RMB1.5

million as of December 31, 2021 to RMB19.7 million as of December 31, 2022, primarily because we made expected credit allowance on certain deposits in relation to our terminated collaboration projects with certain OEM providers.

Our prepayments, other receivables and other assets decreased by 36.9% from RMB355.5 million as of December 31, 2022 to RMB224.3 million as of September 30, 2023, primarily due to (i) the decrease in value-added tax recoverable in relation to our decreased purchase of office buildings and equipment; and (ii) the decrease in prepayments to suppliers, mainly because we had less prepayment and increased trade payables to IP partners due to more favorable payment arrangements in relation to certain IP license, see "– Discussion of Selected Items from the Consolidated Statements of Financial Position – Trade and Bills Payables."

Trade and Bills Payables

Our trade and bills payables primarily represented payables to IP partners, raw material suppliers and OEM providers. Our trade and bills payables increased by 23.7% from RMB118.4 million as of December 31, 2021 to RMB146.5 million as of December 31, 2022, mainly due to the increased purchase of raw materials and OEM services, in line with our business expansion. Our trade and bills payables increased by 68.9% from RMB146.5 million as of December 31, 2022 to RMB247.4 million as of September 30, 2023, primarily because our suppliers required less prepayment but agreed on more favorable payment terms due to our enhanced relationship with them, see "– Discussion of Selected Items from the Consolidated Statements of Financial Position – Prepayments, Other Receivables and Other Assets."

Our trade and bills payables are non-interest-bearing and are normally settled within 30 to 90 days. The following table sets forth an aging analysis of the trade and bills payables based on the invoice dates as of the dates indicated:

	As of December 31,		As of September 30,
	2021	2022	2023
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*
Within 1 month	85.6	74.4	197.3
1 to 3 months	12.3	25.8	31.9
3 to 6 months	5.1	32.7	6.2
6 months to 1 year	3.5	3.7	4.0
Over 1 year	11.9	9.9	8.0
Total	118.4	146.5	247.4

The following table sets forth the turnover days of our trade and bills payables for the periods indicated:

	As of December 31,		As of September 30,
	2021	**2022**	**2023**
	(days)	*(days)*	*(days)*
Trade and bills payables turnover days[(1)]	44.9	37.0	83.5

Note:

(1) Trade and bills payables turnover days for a year/period equal the average of the opening and closing balance of trade and bills payables for the relevant year/period divided by the cost of sales for the relevant year/period and multiplied by the number of days in the relevant year/period, which is 360 days for each year and 270 days for nine months.

Our trade and bills payables turnover days decreased from 44.9 days in 2021 to 37.0 days in 2022, primarily due to our enhanced efforts in settlement of trade and bills payables. Our trade and bills payables turnover days increased from 37.0 days in 2022 to 83.5 days in the nine months ended September 30, 2023, primarily due to more favorable payment terms with suppliers attributed to our enhanced relationship with them.

As of November 30, 2023, approximately RMB153.7 million, or 62.1%, of our trade and bills payables as of September 30, 2023 had been settled.

Other Payables and Accruals

Our other payables and accruals primarily consisted of (i) payroll and welfare payable; (ii) sales discount and rebate payables to sales channel partners; (iii) payables for purchase of property, plant and equipment; and (iv) amounts due to related parties for acquisition of a subsidiary in relation to our Reorganization. The following table sets forth our other payables and accruals as of the dates indicated:

	As of December 31,		As of September 30,
	2021	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*
Payroll and welfare payable	39.4	74.6	72.3
Sales discount and rebate payables	52.3	31.5	37.6
Payables for purchase of property, plant and equipment	5.5	9.9	31.8
Accrued expenses	15.1	24.1	21.4
Amounts due to related parties	17.8	22.3	1.6
Due to related parties for acquisition of a subsidiary now comprising our Group	122.2	–	–
Due to shareholders for acquisition of a subsidiary now comprising our Group	3.8	–	–
Deposits	4.3	6.3	6.5
Tax payable other than corporate income tax	55.3	10.6	14.6
Others	57.2	63.2	52.0
Total	372.9	242.5	237.8

Our other payables and accruals decreased by 35.0% from RMB372.9 million as of December 31, 2021 to RMB242.5 million as of December 31, 2022, primarily due to (i) the decrease in amounts due to related parties for acquisition of a subsidiary from RMB122.2 million as of December 31, 2021 to nil as of December 31, 2022, because we settled the payment in relation to the acquisition of the subsidiary in 2022; (ii) the decrease in sales discount and rebate payables, mainly due to our decreased sales volume in late 2022; and (iii) the decrease in tax payable other than corporate income tax, mainly resulting from the increased deduction effect from the value-added tax receivables, partially offset by the increase in payroll and welfare payable, mainly due to the increased number of employees and the raised salary scale.

Our other payables and accruals remained relatively stable at RMB242.5 million as of December 31, 2022 and RMB237.8 million as of September 30, 2023. Our payables for purchases of property, plant and equipment increased significantly from RMB9.9 million as of December 31, 2022 to RMB31.8 million as of September 30, 2023, primarily due to the decoration of new office buildings, production bases and offline flagship stores. Our payables due to related parties decreased by 92.8% from RMB22.3 million as of December 31, 2022 to RMB1.6 million as of September 30, 2023, primarily due to the decreasing number of related parties.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as of the dates or for the periods indicated:

	As of/For the year ended December 31,		As of/For the nine months ended September 30,
	2021	2022	2023
			(Unaudited)
Gross profit margin (%)(1)	58.1	68.8	67.3
Net profit/(loss) margin (%)(2)	(6.7)	(7.2)	13.3
Adjusted net profit margin (*non-IFRS measure*) (%)(3)	34.6	39.2	29.6
Current ratio(4)	0.6	0.3	0.4

Notes:

(1) Gross profit margin equals gross profit divided by revenue and multiplied by 100%.

(2) Net profit/(loss) margin equals net profit/(loss) for the year/period divided by revenue for the year/period and multiplied by 100%.

(3) Adjusted net profit margin (*non-IFRS measure*) equals adjusted net profit for the year/period as a *non-IFRS measure* divided by revenue for the year/period and multiplied by 100%.

(4) Current ratio equals current assets divided by current liabilities as of the same date.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from cash generated from operations and equity financing. We monitor and maintain a level of cash and cash equivalents deemed adequate to finance our operations and mitigate the effects of fluctuations in cash flows. As of December 31, 2021, 2022 and September 30, 2023, we had cash and cash equivalents of RMB1,091.1 million, RMB594.2 million and RMB980.3 million, respectively. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of operating cash flow, equity and debt financing and the estimated net [**REDACTED**] received from the [**REDACTED**].

Cash Flow

The following table sets forth our cash flow for the periods indicated:

	Year ended December 31,		Nine months ended September 30,	
	2021	**2022**	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*	*(RMB in millions)*
Net cash flows generated from operating activities	915.4	1,731.9	1,714.9	773.0
Net cash flows used in investing activities	(676.7)	(2,102.1)	(1,867.7)	(334.4)
Net cash flows generated from/(used in) financing activities	846.6	(127.2)	(161.6)	(52.6)
Net increase/(decrease) in cash and cash equivalents	1,085.3	(497.4)	(314.4)	386.0
Cash and cash equivalents at the beginning of the year/period	0.8	1,091.1	1,091.1	594.2
Net effect of foreign exchange rate changes	5.0	0.5	(3.3)	0.1
Cash and cash equivalents at the end of the year/period	1,091.1	594.2	773.4	980.3

Net Cash Flows Generated from Operating Activities

Our net cash flows generated from operating activities primarily represented our profit before tax for the period adjusted by (i) non-cash and non-operating items; and (ii) changes in working capital.

In the nine months ended September 30, 2023, our net cash flows generated from operating activities was RMB773.0 million, which was primarily attributed to our profit before tax of RMB365.4 million, as adjusted by (i) non-cash and non-operating items, primarily comprising (a) share-based payment expenses of RMB203.3 million, (b) fair value loss on financial liabilities at fair value through profit or loss of RMB111.6 million, and (c) depreciation of property, plant and equipment of RMB91.5 million; and (ii) changes in working capital, primarily comprising (a) a decrease in prepayments, other receivables and other assets of RMB131.3 million, and (b) an increase in trade and bills payables of RMB101.0 million, partially offset by increase in inventories of RMB121.6 million.

In 2022, our net cash flows generated from operating activities was RMB1,731.9 million, which was primarily attributed to our profit before tax of RMB81.6 million, as adjusted by (i) non-cash and non-operating items, primarily comprising (a) fair value loss on financial liabilities at fair value through profit or loss of RMB1,716.1 million, (b) share-based payment expenses of RMB199.6 million, and (c) depreciation of property, plant and equipment of RMB98.1 million, and (ii) changes in working capital, primarily comprising an increase in prepayments, other receivables and other assets of RMB174.9 million, partially offset by an increase in trade and bills payables as of RMB28.1 million.

In 2021, our net cash flows generated from operating activities was RMB915.4 million, which was primarily attributed to our profit before tax of RMB21.2 million, as adjusted by (i) non-cash and non-operating items, primarily comprising (a) fair value loss on financial liabilities at fair value through profit or loss of RMB909.2 million, and (b) share-based payment expenses of RMB39.4 million; and (ii) changes in working capital, primarily comprising (a) a decrease in contract liabilities of RMB143.7 million, and (b) an increase in prepayments, other receivables and other assets of RMB106.8 million, partially offset by increase in other payables and accruals of RMB220.0 million.

Net Cash Flows Used in Investing Activities

In the nine months ended September 30, 2023, our net cash flows used in investing activities was RMB334.4 million, primarily attributable to (i) purchases of items of property, plant and equipment of RMB330.5 million; and (ii) purchase of financial assets at fair value through profit or loss of RMB18.0 million.

In 2022, our net cash flows used in investing activities was RMB2,102.1 million, primarily attributable to (i) purchases of items of property, plant and equipment of RMB1,366.9 million; and (ii) an increase in bank deposits with original maturity of more than three months when acquired of RMB680.0 million.

In 2021, our net cash flows used in investing activities was RMB676.7 million, primarily attributable to (i) purchases of items of property, plant and equipment of RMB629.2 million; and (ii) prepayment for the right-of-use of a parcel leasehold land of RMB36.6 million.

Net Cash Flows Generated from or Used in Financing Activities

In the nine months ended September 30, 2023, our net cash flows used in financing activities was RMB52.6 million, primarily attributable to (i) repayment of bank borrowings of RMB50.0 million; and (ii) a principal portion of lease payments of RMB47.4 million, partially offset by proceeds from bank borrowings of RMB50.0 million.

In 2022, our net cash flows used in financing activities was RMB127.2 million, which was primarily attributable to (i) payment for acquisition of a subsidiary now comprising our Group of RMB126.0 million; and (ii) a principal portion of lease payments of RMB49.7 million, partially offset by proceeds from bank borrowings of RMB50.0 million.

In 2021, our net cash flows generated from financing activities was RMB846.6 million, primarily attributable to proceeds from issuance of financial liabilities at fair value through profit or loss of RMB855.7 million, partially offset by principal portion of lease payments of RMB12.8 million.

Net Current Assets/Liabilities

The following table sets forth our current assets and liabilities as of the dates indicated:

	As of December 31,		As of September 30,	As of November 30,
	2021	**2022**	**2023**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions) (Unaudited)*	*(RMB in millions) (Unaudited)*
Current assets				
Inventories	232.8	230.3	340.6	362.6
Trade receivables	66.3	45.0	82.8	77.8
Prepayments, other receivables and other assets	202.6	355.5	224.3	231.5
Cash and cash equivalents	1,091.1	594.2	980.3	811.6
Total current assets	1,592.8	1,225.0	1,628.0	1,483.5
Current liabilities				
Trade and bills payables	118.4	146.5	247.4	220.7
Other payables and accruals	372.9	242.5	237.8	238.6
Interest-bearing bank borrowings	–	50.0	50.0	50.0
Tax payables	124.0	100.2	52.2	2.2
Contract liabilities	39.3	60.1	131.2	29.8
Financial liabilities at fair value through profit or loss	1,768.7	3,484.8	3,596.4	3,598.6
Lease liabilities	33.9	58.4	56.5	57.2
Total current liabilities	2,457.2	4,142.5	4,371.5	4,197.1
Net current liabilities	(864.4)	(2,917.5)	(2,743.5)	(2,713.6)

Our net current liabilities increased significantly from RMB864.4 million as of December 31, 2021 to RMB2,917.5 million as of December 31, 2022. The increase was primarily due to (i) an increase in financial liabilities at fair value through profit or loss, mainly due to the changes in valuation of our Company, see "– Indebtedness – Financial Liabilities at Fair Value through Profit or Loss;" and (ii) a decrease in cash and cash equivalents, mainly due to our increasing long-term bank deposits, see "– Liquidity and Capital Resources – Cash Flow." Such increase was partially offset by an increase in prepayments, other receivables and other assets, see "– Discussion of Selected Items from the Consolidated Statements of Financial Position – Prepayments, Other Receivables and Other Assets."

Our net current liabilities decreased by 6.0% from RMB2,917.5 million as of December 31, 2022 to RMB2,743.5 million as of September 30, 2023. The decrease was primarily due to (i) an increase in cash and cash equivalents, primarily attributed to proceeds from our operating activities, see "– Liquidity and Capital Resources – Cash Flow;" and (ii) an increase in inventories, mainly due to our increasingly diverse product offerings with expanded product categories and new series roll-outs, see "– Discussion of Selected Items from the Consolidated Statements of Financial Position – Inventories." Such decrease was partially offset by a decrease in prepayments, other receivables and other assets, see "– Discussion of Selected Items from the Consolidated Statements of Financial Position – Prepayments, Other Receivables and Other assets."

Our net current liabilities decreased by 1.1% from RMB2,743.5 million as of September 30, 2023 to RMB2,713.6 million as of November 30, 2023, primarily due to (i) a decrease in contract liabilities as we fulfilled certain contract obligations; and (ii) a decrease in tax payables, mainly due to our income tax payment. Such decrease was partially offset by a decrease in cash and cash equivalents, mainly due to our income tax payment and settlement of payment associated with equipment purchases and construction of production bases, see "– Liquidity and Capital Resources – Cash Flow."

As of November 30, 2023, we had net current liabilities of RMB2,713.6 million, mainly resulting from our financial liabilities at fair value through profit or loss related to the redemption right granted to Pre-[**REDACTED**] Investors. See "– Indebtedness – Financial Liabilities at Fair Value Through Profit or Loss" and Notes 2.4 and 27 of Appendix I to this Document. We expect to achieve a net current asset position upon [**REDACTED**] due to the reclassification of financial liabilities at fair value through profit or loss from liabilities to equity as a result of the conversion of Series A Preferred Shares into Ordinary Shares upon [**REDACTED**].

INDEBTEDNESS

As of December 31, 2021, 2022, September 30, 2023 and November 30, 2023, our indebtedness consisted of lease liabilities, including current and non-current portion, interest-bearing bank borrowings and financial liabilities at fair value through profit or loss. As of November 30, 2023, being the indebtedness date for the purpose of the indebtedness statement, we had a total indebtedness of RMB3,747.9 million. As of November 30, 2023, we had unutilized banking facilities of RMB160.0 million.

The following table sets forth the details of our indebtedness as of November 30, 2023:

	As of December 31,		As of September 30,	As of November 30,
	2021	**2022**	**2023**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*	*(RMB in millions)* *(Unaudited)*
Current				
Financial liabilities at fair value through profit or loss	1,768.7	3,484.8	3,596.4	3,598.6
Lease liabilities	33.9	58.4	56.5	57.2
Interest-bearing bank borrowings	–	50.0	50.0	50.0
Subtotal	1,802.6	3,593.2	3,702.9	3,705.8
Non-current				
Lease liabilities	70.7	79.0	44.7	42.1
Total	1,873.3	3,672.2	3,747.6	3,747.9

Except for our indebtedness as disclosed above as of December 31, 2021, 2022 and September 30, 2023 and as of November 30, 2023, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), or acceptance credits, which were either guaranteed or unguaranteed, secured or unsecured.

Financial Liabilities at Fair Value Through Profit or Loss

During the Track Record Period, our financial liabilities at fair value through profit or loss were primarily related to (i) the redemption right granted to Pre-[**REDACTED**] Investors in the Pre-[**REDACTED**] Investment, which enables Pre-[**REDACTED**] Investors to request our Company to redeem all or part of their outstanding Series A Preferred Shares under certain circumstances as specified in the Shareholder's Agreement, and thus constitutes our redemption liability; and (ii) our Group's commitment to allow certain Pre-[**REDACTED**] Investors to subscribe for the Series A Preferred Shares at a pre-determined price upon the fulfillment of closing conditions. We designate such redemption liability and commitments relating to the Series A Preferred Shares as financial liabilities measured as fair values through profit or loss. Changes in fair value of the Series A Preferred Shares and the commitments were recorded as fair value changes of financial liabilities at fair value through profit or loss in the consolidated statements of profit or loss, and the fair value was determined using the valuation techniques. See Notes 3 and 27 of Appendix I to this Document and "– Description of Major Components of Our Results of Operations – Fair Value Changes of Financial Liabilities at Fair Value Through Profit or Loss." As of December 31, 2021, 2022, September 30, 2023 and November 30, 2023, our financial liabilities at fair value through profit or loss amounted to RMB1,768.7 million, RMB3,484.8 million, RMB3,596.4 million and RMB3,598.6 million, respectively. The financial liabilities at fair value through profit or loss will be reclassified from liabilities to equity as a result of the conversion of Series A Preferred Shares into Ordinary Shares upon [**REDACTED**].

Our financial liabilities at fair value through profit or loss increased by 97.0% from RMB1,768.7 million as of December 31, 2021 to RMB3,484.8 million as of December 31, 2022, primarily due to the changes in the valuation of our Company. Our financial liabilities at fair value through profit or loss increased by 3.2% from RMB3,484.8 million as of December 31, 2022 to RMB3,596.4 million as of September 30, 2023, primarily due to the changes in the valuation of our Company.

Our financial liabilities at fair value through profit or loss remained relatively stable at RMB3,596.4 million as of September 30, 2023 and RMB3,598.6 million as of November 30, 2023.

Lease Liabilities

As of December 31, 2021, 2022, September 30, 2023 and November 30, 2023, our total lease liabilities (including current and non-current portions) amounted to RMB104.6 million, RMB137.4 million, RMB101.2 million and RMB99.3 million, respectively.

Our total lease liabilities increased by 31.4% from RMB104.6 million as of December 31, 2021 to RMB137.4 million as of December 31, 2022, primarily due to the increased number of leases for production bases, offices and offline flagship stores to satisfy our business expansion needs. Our total lease liabilities decreased by 26.3% from RMB137.4 million as of December 31, 2022 to RMB101.2 million as of September 30, 2023, mainly due to our payment of rent for leases.

Our total lease liabilities decreased by 1.8% from RMB101.2 million as of September 30, 2023 to RMB99.3 million as of November 30, 2023, mainly due to our payment of rent for leases.

Interest-bearing Bank Borrowings

As of December 31, 2021, 2022, September 30, 2023 and November 30, 2023, our interest-bearing bank borrowings amounted to nil, RMB50.0 million, RMB50.0 million and RMB50.0 million, respectively.

Our interest-bearing bank borrowings increased from nil as of December 31, 2021 to RMB50.0 million as of December 31, 2022, primarily due to our cash demand for business operation in 2022. Our interest-bearing bank borrowings remained relatively stable at RMB50.0 million as of December 31, 2022, September 30, 2023 and November 30, 2023.

Our Directors confirm that, there was no material covenant on any of our outstanding debt as of the Latest Practicable Date, and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that we did not experience any unusual difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

CONTINGENT LIABILITIES OR GUARANTEES

As of December 31, 2021, 2022, September 30, 2023 and November 30, 2023, we did not have any material contingent liabilities or guarantees.

CAPITAL COMMITMENTS

The following table sets forth the details of our capital commitments for the periods indicated:

	As of December 31,		As of September 30,
	2021	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*
Contracted, but not provided for:			
Property, plant and equipment	957.5	542.6	228.2

CAPITAL EXPENDITURES

During the Track Record Period, our capital expenditures were primarily related to purchases of (i) property, plant and equipment; (ii) other intangible assets; and (iii) right-of-use assets. The following table sets forth a breakdown of our capital expenditures for the periods indicated:

	Year ended December 31,		Nine months ended September 30,
	2021	**2022**	**2023**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)* *(Unaudited)*
Purchases of property, plant and equipment	629.2	1,366.9	330.5
Purchases of other intangible assets	12.6	18.8	12.8
Purchases of right-of-use assets	36.6	56.9	1.9
Total	678.4	1,442.6	345.2

Our capital expenditures in 2021, 2022 and the nine months ended September 30, 2023 were RMB678.4 million, RMB1,442.6 million and RMB345.2 million, respectively. We funded our capital expenditure requirements during the Track Record Period mainly from cash generated from operations.

Our capital expenditure is expected to be RMB570.5 million in 2023, primarily to be used for purchases of property, plant and equipment. Our capital expenditure is expected to be RMB1,052.0 million in 2024, primarily to be used for purchases of property, plant and equipment. We intend to fund our future capital expenditures with a combination of operating cashflow, equity and debt financing and net [**REDACTED**] received from the [**REDACTED**]. See "Future Plans and Use of [**REDACTED**]." We may reallocate the fund to be utilized on capital expenditure based on our ongoing business needs.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

PROPERTY INTERESTS AND PROPERTY VALUATION REPORT

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has valued our selected property interests as of November 30, 2023. For details of the valuation, see the property valuation report in Appendix IV to this Document.

The following table sets forth a reconciliation of the fair value of the selected property interests as of November 30, 2023 set out in Appendix IV to this Document and the net carrying amount of the selected property interests in the consolidated financial statements as of September 30, 2023 set out in Appendix I to this Document:

	(RMB in millions)
Net book value of our selected property interests as of September 30, 2023 (unaudited)	1,047.4
Movement during the period from September 30, 2023 to November 30, 2023 (unaudited)	2.3
Net book value of our selected property interests as of November 30, 2023 (unaudited)	1,049.7
Valuation surplus	132.3
Market value of our selected property interests as of November 30, 2023 as set forth in the property valuation report(1)	1,182.0

Note:

(1) We had not obtained the title certificate for one building within the selected property interests and the legal title of this building had not been vested in us as of the Latest Practicable Date. Therefore, no commercial value was attributed to this building in the property valuation report. See Note 4 in Appendix IV of this Document. We expect to obtain the title certificate for this building in the first quarter of 2024. Based on the property valuation report, the market value of this building would be RMB178.0 million, and the aggregate value of relevant property would be RMB1,182.0 million as of November 30, 2023, assuming that the relevant title certificate has been obtained by us and we are entitled to freely transfer, lease, mortgage or otherwise dispose of the building.

MATERIAL RELATED PARTY TRANSACTIONS

For details about our related party transactions during the Track Record Period, see Note 35 of Appendix I to this Document.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

FINANCIAL RISK

We are exposed to a variety of financial risks, including market risks (such as foreign currency risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Our Board reviewed and agreed the following risk management policies. See Note 38 of Appendix I to this Document for a detailed description of our financial risk management.

Foreign Currency Risk

Foreign currency risk arises from recognized assets and liabilities denominated in a currency other than the functional currency of our entities. We operate mainly in China with most of the transactions settled in RMB. We seek to limit our exposure to foreign currency risk by minimizing our net foreign currency position. We consider that our business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of ours denominated in the currencies other than the respective functional currencies of our entities, so that we do not hedge against any fluctuation in foreign currency.

Credit Risk

The carrying amounts of cash and cash equivalents, trade receivables and financial assets included in prepayments, other receivables and other assets included in the consolidated statements of financial position represent our maximum exposure to credit risk in relation to our financial assets as of December 31, 2021, 2022 and September 30, 2023. We classify financial instruments on the basis of shared credit risk characteristics, such as instrument types and credit risk ratings for the purpose of determining significant increases in credit risk and calculation of impairment. For details of maximum exposure and year-end staging, see Note 38(b) of Appendix I to this Document.

Liquidity Risk

Liquidity risk is the risk that we will encounter difficulty in meeting financial obligations due to shortage of funds. Our exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. Our objective is to maintain a balance for continuity of funding to finance our working capital needs as well as capital expenditure. For details of the maturity profile of our financial liabilities based on contractual discounted payments as of December 31, 2021, 2022 and September 30, 2023, see Note 38(c) of Appendix I to this Document.

DIVIDENDS

No dividends have been paid or declared by our Company during the Track Record Period.

We are a holding company incorporated under the laws of the Cayman Islands. Under the Cayman Islands law, our Company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. As advised by our Cayman Islands counsel, subject to the above, there is no restriction under the Cayman Islands law for our Company to declare and pay a dividend despite our accumulated losses. Our Board has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our Shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our Board. A decision to declare or to pay any dividends in the future, and the amount of any such dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, payments by our subsidiaries of cash dividends to us, business prospects, statutory, regulatory and contractual restrictions on our declaration and payment of dividends and other factors that our Board may consider important. We do not have a pre-determined dividend payout ratio. No dividend will be declared or payable except out of our profits and reserves lawfully available for distribution. There can be no assurance that dividends of any amount will be declared or distributed in any year.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us, including our cash and cash equivalents on hand, the long-term bank deposits and the estimated net [**REDACTED**] from the [**REDACTED**], our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this Document.

DISTRIBUTABLE RESERVES

As of September 30, 2023, our Company did not have any distributable reserves.

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

NO MATERIAL ADVERSE CHANGE

Our Directors confirmed that, as of the date of this Document, there had been no material adverse change in our financial or trading position or prospects since September 30, 2023, being the end date of the periods reported in Appendix I to this Document, and there had been no event since September 30, 2023 that would materially affect the information as set out in the Accountants' Report in Appendix I to this Document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this Document, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS

See "Business – Our Strategies" for a detailed description of our future plans.

USE OF [REDACTED]

We estimate that we will receive net [**REDACTED**] of approximately HK$[**REDACTED**] from the [**REDACTED**] after deducting the [**REDACTED**] and other estimated expenses paid and payable by us in connection with the [**REDACTED**], assuming the [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the [**REDACTED**] stated in this Document) and assuming that the [**REDACTED**] is not exercised. We intend to use the net [**REDACTED**] from the [**REDACTED**] for the purposes set forth below:

- approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used for production facility expansion and upgrade. Specifically:

  - o approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used for the expansion of production facilities, primarily two production bases under construction in Yiwu, Zhejiang, the completion of which is estimated for 2024 and 2025. The annual production capacity of these two production bases is 300.0 thousand and 3,000.0 thousand production units, respectively. Our production facility expansion efforts are expected to support our continuous product launch and product mix optimization.

    approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used to upgrade our production facilities and enhance the production and inspection technologies and processes. We intend to: (i) further introduce and upgrade production technologies and equipment, as well as upgrade the technological capabilities and responsiveness of our existing production equipment; and (ii) continuously enhance the intelligence of production processes and strengthen real-time monitoring and analysis.

- approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used to enrich our IP matrix and strengthen IP operations. We plan to source more high-quality, popular IPs globally and create more proprietary IPs. We also intend to pursue strategic collaboration opportunities with IP partners in the format and at the time that we perceive as appropriate.

- approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used for product design and development to enrich our product mix with more product categories and series. Specifically:

  - o approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used on research and development on design techniques and materials, as well as exploring and deepening product development collaborations.

  - o approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used to recruit, retain and train talents for our product design and development team.

- approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used to optimize our warehousing and logistics capabilities through building new facilities and strengthening automation to improve inventory management and operation efficiency.

- approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used for digitalization of our business operations. We intend to further invest in information technologies and systems by procuring digital systems and software as well as upgrading and integrating the existing information systems for our business operations. We also intend to further recruit, retain and train information technology talents.

- approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used for our brand promotion. We intend to further enhance our brand recognition through marketing efforts and gamification operations.

- approximately [**REDACTED**]% of the net [**REDACTED**], or HK$[**REDACTED**], is expected to be used for working capital and general corporate purposes.

The above allocation of the [**REDACTED**] will be adjusted on a pro rata basis in the event that the [**REDACTED**] is fixed at a higher or lower level compared to the mid-point of the estimated [**REDACTED**].

To the extent that the net [**REDACTED**] of the [**REDACTED**] are not immediately used for the above purposes or if we are unable to put into effect any part of our future development plans as intended, and to the extent permitted by the relevant laws and regulations, we may deposit such net [**REDACTED**] into interest-bearing bank accounts at licensed commercial banks or other authorized financial institutions so long as it is deemed to be in the best interests of our Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

[**REDACTED**]

[**REDACTED**]

[REDACTED]

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[REDACTED]

The following is the text of a report on Kayou Inc., prepared for the purpose of incorporation in this Document received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.

[To insert the firm's letterhead with official address]

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF KAYOU INC., MORGAN STANLEY ASIA LIMITED, CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND J.P. MORGAN SECURITIES (FAR EAST) LIMITED

Introduction

We report on the historical financial information of Kayou Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-100, which comprises the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 December 2021 and 2022 (the "Relevant Periods"), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2021 and 2022, and material accounting policy information and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-100 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [**REDACTED**] (the "Document") in connection with the initial [**REDACTED**] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at 31 December 2021 and 2022, and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Review of interim financial information

We have reviewed the interim financial information of the Group which comprises the consolidated statement of financial position of the Group as at 30 September 2023, the statement of financial position of the Company as at 30 September 2023 and the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the nine months ended 30 September 2022 and 2023, and other explanatory information (the "Interim Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Interim Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

[●]
Certified Public Accountants
Hong Kong

[**REDACTED**]

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Notes	Year ended 31 December		Nine months ended 30 September	
		2021	**2022**	**2022**	**2023**
		RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
REVENUE	*5*	2,298,336	4,131,124	3,652,064	1,951,477
Cost of sales		(963,293)	(1,288,839)	(1,101,287)	(637,173)
Gross profit		1,335,043	2,842,285	2,550,777	1,314,304
Other income and gains	*5*	6,422	44,856	33,603	55,643
Selling and distribution expenses		(181,249)	(375,022)	(283,464)	(296,192)
Administrative expenses		(218,375)	(666,476)	(448,815)	(583,285)
Other expenses		(20,313)	(2,317)	(1,234)	(5,733)
Reversal of impairment losses/(impairment losses) on financial assets, net	*6*	10,760	(40,349)	(38,622)	(2,502)
OPERATING PROFIT		932,288	1,802,977	1,812,245	482,235
Finance costs	*7*	(1,857)	(5,246)	(3,867)	(5,250)
Fair value changes of financial liabilities at fair value through profit or loss	*27*	(909,171)	(1,716,132)	(1,548,224)	(111,606)
PROFIT BEFORE TAX	*6*	21,260	81,599	260,154	365,379
Income tax expense	*10*	(174,441)	(377,626)	(375,399)	(105,217)
PROFIT/(LOSS) FOR THE YEAR/PERIOD		(153,181)	(296,027)	(115,245)	260,162
Attributable to:					
Owners of the parent		(153,181)	(296,027)	(115,245)	260,162
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
Basic (RMB)	*12*	(0.26)	(0.30)	(0.12)	0.26
Diluted (RMB)	*12*	(0.26)	(0.30)	(0.12)	0.25

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		Nine months ended 30 September	
	2021	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	*(Unaudited)*
PROFIT/(LOSS) FOR THE YEAR/PERIOD	(153,181)	(296,027)	(115,245)	260,162
OTHER COMPREHENSIVE INCOME/(LOSS)				
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:				
Exchange differences:				
Exchange differences on translation of foreign operations	–	(844)	(752)	144
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	–	(844)	(752)	144
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD, NET OF TAX	–	(844)	(752)	144
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD	(153,181)	(296,871)	(115,997)	260,306
Attributable to:				
Owners of the parent	(153,181)	(296,871)	(115,997)	260,306

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		31 December		30 September
	Notes	**2021**	**2022**	**2023**
		RMB'000	*RMB'000*	*RMB'000*
				(Unaudited)
NON-CURRENT ASSETS				
Property, plant and equipment	*13*	284,857	830,892	2,118,461
Right-of-use assets	*14(a)*	132,682	218,977	183,274
Other intangible assets	*15*	11,450	16,687	16,845
Financial assets at fair value through profit or loss	*16*	–	12,000	28,718
Other non-current assets	*17*	481,479	1,206,026	179,239
Deferred tax assets	*18*	14,016	40,889	50,092
Long-term bank deposits	*22*	–	691,219	695,258
Total non-current assets		924,484	3,016,690	3,271,887
CURRENT ASSETS				
Inventories	*19*	232,785	230,296	340,614
Trade receivables	*20*	66,335	44,958	82,791
Prepayments, other receivables and other assets	*21*	202,654	355,559	224,211
Cash and cash equivalents	*22*	1,091,056	594,153	980,339
Total current assets		1,592,830	1,224,966	1,627,955
CURRENT LIABILITIES				
Trade and bills payables	*23*	118,402	146,475	247,426
Other payables and accruals	*24*	372,837	242,407	237,637
Interest-bearing bank borrowings	*25*	–	50,000	50,000
Tax payables		124,034	100,209	52,230
Contract liabilities	*26*	39,310	60,107	131,217
Financial liabilities at fair value through profit or loss	*27*	1,768,696	3,484,828	3,596,434
Lease liabilities	*14(b)*	33,905	58,432	56,462
Total current liabilities		2,457,184	4,142,458	4,371,406
NET CURRENT LIABILITIES		(864,354)	(2,917,492)	(2,743,451)
TOTAL ASSETS LESS CURRENT LIABILITIES		60,130	99,198	528,436

	Notes	31 December 2021	31 December 2022	30 September 2023
		RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
NON-CURRENT LIABILITIES				
Deferred tax liabilities	*18*	45,061	160,188	161,140
Deferred income	*28*	–	12,886	11,812
Lease liabilities	*14(b)*	70,674	79,000	44,705
Total non-current liabilities		115,735	252,074	217,657
NET ASSETS/(LIABILITIES)		(55,605)	(152,876)	310,779
EQUITY				
Equity attributable to owners of the parent				
Share capital	*29*	8	8	8
Reserves	*30*	(55,613)	(152,884)	310,771
TOTAL EQUITY/(DEFICIENCY IN ASSETS)		(55,605)	(152,876)	310,779

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent					
	Share capital	**Merger reserve***	**Share-based payment reserve***	**Statutory surplus reserve***	**Accumulated losses***	**Total deficits**
	RMB'000 (Note 29)	*RMB'000 (Note 30)*	*RMB'000 (Note 30)*	*RMB'000 (Note 30)*	*RMB'000*	*RMB'000*
As at 1 January 2021	–	104,700	–	–	(48,194)	56,506
Loss for the year	–	–	–	–	(153,181)	(153,181)
Other comprehensive income for the year:						
Exchange differences on translation of foreign operations	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	(153,181)	(153,181)
Issuance of ordinary shares	6	(6)	–	–	–	–
Issuance of series A preferred shares	2	(2)	–	–	–	–
Capital contribution from shareholders	–	131,739	–	–	–	131,739
Deemed distribution to shareholders	–	(130,003)	–	–	–	(130,003)
Share-based payments *(Note 31)*	–	–	39,334	–	–	39,334
Transfer from retained earnings	–	–	–	55,971	(55,971)	–
As at 31 December 2021	8	106,428	39,334	55,971	(257,346)	(55,605)

	Attributable to owners of the parent						
	Share capital	**Merger reserve***	**Share-based payment reserve***	**Statutory surplus reserve***	**Exchange fluctuation reserve***	**Accumulated losses***	**Total deficits**
	RMB'000 (Note 29)	*RMB'000 (Note 30)*	*RMB'000 (Note 30)*	*RMB'000 (Note 30)*	*RMB'000 (Note 30)*	*RMB'000*	*RMB'000*
As at 1 January 2022	8	106,428	39,334	55,971	–	(257,346)	(55,605)
Loss for the year	–	–	–	–	–	(296,027)	(296,027)
Other comprehensive loss for the year:							
Exchange differences on translation of foreign operations	–	–	–	–	(844)	–	(844)
Total comprehensive loss for the year	–	–	–	–	(844)	(296,027)	(296,871)
Share-based payments *(Note 31)*	–	–	199,600	–	–	–	199,600
Transfer from retained earnings	–	–	–	169,638	–	(169,638)	–
As at 31 December 2022	8	106,428	238,934	225,609	(844)	(723,011)	(152,876)

	Attributable to owners of the parent						
	Share capital	**Merger reserve**	**Share-based payment reserve***	**Statutory surplus reserve**	**Exchange fluctuation reserve**	**Accumulated losses**	**Total deficits**
	RMB'000 (Unaudited) (Note 29)	*RMB'000 (Unaudited) (Note 30)*	*RMB'000 (Unaudited) (Note 30)*	*RMB'000 (Unaudited) (Note 30)*	*RMB'000 (Unaudited) (Note 30)*	*RMB'000 (Unaudited)*	*RMB'000 (Unaudited)*
As at 1 January 2022	8	106,428	39,334	55,971	–	(257,346)	(55,605)
Loss for the period	–	–	–	–	–	(115,245)	(115,245)
Other comprehensive loss for the period:							
Exchange differences on translation of foreign operations	–	–	–	–	(752)	–	(752)
Total comprehensive loss for the period	–	–	–	–	(752)	(115,245)	(115,997)
Share-based payments	–	–	134,669	–	–	–	134,669
Transfer from retained earnings	–	–	–	168,681	–	(168,681)	–
As at 30 September 2022	8	106,428	174,003	224,652	(752)	(541,272)	(36,933)

	Attributable to owners of the parent						
	Share capital	**Merger reserve***	**Share-based payment reserve***	**Statutory surplus reserve***	**Exchange fluctuation reserve***	**Accumulated losses***	**(Total deficits)/ total equity**
	RMB'000 (Unaudited) (Note 29)	*RMB'000 (Unaudited) (Note 30)*	*RMB'000 (Unaudited) (Note 30)*	*RMB'000 (Unaudited) (Note 30)*	*RMB'000 (Unaudited) (Note 30)*	*RMB'000 (Unaudited)*	*RMB'000 (Unaudited)*
As at 1 January 2023	8	106,428	238,934	225,609	(844)	(723,011)	(152,876)
Profit for the period	–	–	–	–	–	260,162	260,162
Other comprehensive income for the period:							
Exchange differences on translation of foreign operations	–	–	–	–	144	–	144
Total comprehensive income for the period	–	–	–	–	144	260,162	260,306
Share-based payments *(Note 31)*	–	–	203,349	–	–	–	203,349
Transfer from retained earnings	–	–	–	55,960	–	(55,960)	–
As at 30 September 2023	8	106,428	442,283	281,569	(700)	(518,809)	310,779

* These reserve accounts comprise the deficits of RMB55,613,000, RMB152,884,000 and the reserves of RMB310,771,000 (unaudited) in the consolidated statements of financial position as at 31 December 2021 and 2022, and 30 September 2023, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December 2021	Year ended 31 December 2022	Nine months ended 30 September 2022	Nine months ended 30 September 2023
		RMB'000	*RMB'000*	*RMB'000 (Unaudited)*	*RMB'000 (Unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		21,260	81,599	260,154	365,379
Adjustments for:					
Depreciation of property, plant and equipment	*13*	28,290	98,129	66,999	91,522
Depreciation of right-of-use assets	*14(a)*	13,626	54,623	38,438	49,746
Amortisation of other intangible assets	*15*	2,215	13,587	9,098	12,682
Fair value loss on financial liabilities at fair value through profit or loss	*27*	909,171	1,716,132	1,548,224	111,606
Fair value loss on financial assets at fair value through profit or loss, net	*16*	–	–	–	1,282
Loss on disposal of items of property, plant and equipment	*6*	17,546	476	476	130
Gain arising from early termination of leases	*5*	–	(1,421)	(801)	(1,087)
Deferred income recognised in profit or loss	*5*	–	(1,432)	(1,074)	(1,074)
Impairment losses recognised on financial assets/(reversal of impairment losses on financial assets), net	*6*	(10,760)	40,349	38,622	2,502
Impairment of inventories/(reversal of impairment of inventories)	*6*	(1,814)	8,679	8,145	11,303
Equity-settled share-based payment expenses	*6*	39,334	199,600	134,669	203,349
Interest income	*5*	(1,815)	(27,357)	(20,749)	(32,942)
Finance costs	*7*	1,857	5,246	3,867	5,250
Foreign exchange differences, net	*6*	(1,190)	(1,311)	(1,311)	–
		1,017,720	2,186,899	2,084,757	819,648
Increase in inventories		(18,423)	(6,190)	(53,681)	(121,621)
Increase in trade receivables		(34,821)	(822)	(65,905)	(40,335)
Decrease/(increase) in prepayments, other receivables and other assets		(106,832)	(174,876)	(100,083)	131,348
Increase/(decrease) in trade and bills payables		(3,359)	28,073	50,209	100,951
Increase/(decrease) in other payables and accruals		219,960	(8,790)	45,470	(26,686)
Increase/(decrease) in contract liabilities		(143,700)	20,797	29,212	71,110
Cash generated from operations		930,545	2,045,091	1,989,979	934,415
Income tax paid		(15,194)	(313,199)	(275,067)	(161,446)
Net cash flows generated from operating activities		915,351	1,731,892	1,714,912	772,969

		Year ended 31 December		Nine months ended 30 September	
	Notes	**2021**	**2022**	**2022**	**2023**
		RMB'000	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000* (*Unaudited*)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment		(629,228)	(1,366,941)	(1,147,786)	(330,529)
Proceeds from disposal of items of property, plant and equipment		–	2,135	2,131	10
Purchases of other intangible assets	*15*	(12,630)	(18,824)	(15,502)	(12,840)
Prepayment for the right-of-use of a parcel of leasehold land	*14(a)*	(36,620)	(56,911)	(55,558)	(1,870)
Purchase of financial assets at fair value through profit or loss		–	(12,000)	–	(18,000)
Increase in bank deposits with original maturity of more than three months when acquired		–	(680,000)	(680,000)	–
Receipt of government grants for property, plant and equipment	*28*	–	14,318	14,318	–
Interest received		1,815	16,138	14,672	28,903
Net cash flows used in investing activities		(676,663)	(2,102,085)	(1,867,725)	(334,326)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from bank borrowings	*32*	–	50,000	–	50,000
Repayment of bank borrowings	*32*	–	–	–	(50,000)
Capital contribution from a shareholder		9,500	–	–	–
Deemed distribution to shareholders		(3,984)	–	–	–
Payment for acquisition of a subsidiary now comprising the Group		–	(126,019)	(126,019)	–
Proceeds from issuance of convertible redeemable preferred shares of the Company		855,704	3,821	3,821	–
Principal portion of lease payments	*32*	(12,798)	(49,733)	(35,547)	(47,351)
Interest portion of lease payments	*32*	(1,857)	(5,246)	(3,867)	(3,733)
Interest paid		–	–	–	(1,517)
Net cash flows generated from/(used in) financing activities		846,565	(127,177)	(161,612)	(52,601)

		Year ended 31 December		Nine months ended 30 September	
	Note	**2021**	**2022**	**2022**	**2023**
		RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,085,253	(497,370)	(314,425)	386,042
Cash and cash equivalents at beginning of year/period		792	1,091,056	1,091,056	594,153
Effect of foreign exchange rate changes, net		5,011	467	(3,262)	144
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		1,091,056	594,153	773,369	980,339
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and cash equivalents	*22*	1,091,056	594,153	773,369	980,339
Cash and cash equivalents as stated in the consolidated statements of cash flows and consolidated statements of financial position		1,091,056	594,153	773,369	980,339

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	31 December 2021	31 December 2022	30 September 2023
		RMB'000	*RMB'000*	*RMB'000 (Unaudited)*
NON-CURRENT ASSETS				
Investment in a subsidiary*		39,334	1,099,930	1,303,279
Total non-current assets		39,334	1,099,930	1,303,279
CURRENT ASSETS				
Cash and cash equivalents		856,894	28	28
Due from shareholders		3,829	15	15
Total current assets		860,723	43	43
CURRENT LIABILITIES				
Due to a subsidiary		–	67	69
Financial liabilities at fair value through profit or loss	*27*	1,768,696	3,484,828	3,596,434
Total current liabilities		1,768,696	3,484,895	3,596,503
NET CURRENT LIABILITIES		(907,973)	(3,484,852)	(3,596,460)
TOTAL ASSETS LESS CURRENT LIABILITIES		(868,639)	(2,384,922)	(2,293,181)
NET LIABILITIES		(868,639)	(2,384,922)	(2,293,181)
DEFICIENCY IN EQUITY				
Share capital	*29*	8	8	8
Reserves	*30*	(868,647)	(2,384,930)	(2,293,189)
DEFICIENCY IN EQUITY		(868,639)	(2,384,922)	(2,293,181)

* As at 31 December 2021 and 2022 and 30 September 2023, the balances of the Company's investment in a subsidiary were as follows:

	31 December 2021	31 December 2022	30 September 2023
	RMB'000	*RMB'000*	*RMB'000 (Unaudited)*
Kayou Holdings Limited	–	860,996	860,996
Investment arising from equity-settled share-based payment *(note)*	39,334	238,934	442,283
	39,334	1,099,930	1,303,279

Note: The amount represents equity-settled share-based payment expenses arising from the share award scheme of the Company to the consultants of the Group (note 31) in exchange for their services provided to the subsidiaries of the Group, which were deemed to be investments made by the Company into these subsidiaries.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is an exempted company incorporated in the Cayman Islands on 27 May 2021. The registered office address of the Company is Sertus Chambers, Governors Square, Suite #5-204, 23 Lime Tree Bay Avenue, P.O. Box 2547, Grand Cayman, KY1104, Cayman Island.

The Company is an investment holding company. During the Relevant Periods and the nine months ended 30 September 2022 and 2023, the Company's subsidiaries were involved in the design, manufacture and sale of pan-entertainment products, including toys and stationery products, in the People's Republic of China (the "PRC").

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed "History, Reorganization and Corporate Structure" in the Document. The Reorganisation was completed on 15 December 2021. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

In the opinion of the Company's directors, the ultimate holding companies of the Company is Liqibin Holdings Limited and Qiyan Holdings Limited (collectively, the "Ultimate Holding Companies"), which were incorporated in the British Virgin Islands ("BVI"), and the ultimate controlling shareholders of the Company are Mr. Li Qibin and Ms. Qi Yan (collectively, the "Ultimate Controlling Shareholders").

As at the date of this report, the Company had direct or indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Information about subsidiaries

As at the date of this report, particulars of the Company's principal subsidiaries are as follows:

Name	Notes	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Kayou Holdings Limited	(1)	BVI 7 June 2021	US$1	100%	–	Investment holding
Kayou Limited	(2)	Hong Kong 25 June 2021	HK$1	–	100%	Investment holding
Zhejiang Kayou Animation Co., Ltd. ("浙江卡游動漫有限公司")	(3)	PRC/ Chinese Mainland 7 August 2019	RMB835,550,000	–	100%	Design, manufacture and sale of pan-entertainment products
Zhejiang Kayou Science and Technology Co., Ltd. ("浙江卡游科技有限公司")	(3)	PRC/ Chinese Mainland 26 November 2019	RMB300,000,000	–	100%	Manufacture of pan-entertainment products
Kayou (Shanghai) Culture Creativity Co., Ltd. ("卡游(上海)文化創意有限公司")	(2)	PRC/ Chinese Mainland 27 September 2021	RMB10,000,000	–	100%	Sale of pan-entertainment products
Shanghai Kayou Industry Co., Ltd. ("上海卡游實業有限公司")	(4)	PRC/ Chinese Mainland 22 September 2022	RMB100,000,000	–	100%	Sale of pan-entertainment products
Kayou (Shanghai) Culture Communications Co., Ltd. ("卡游(上海)文化傳播有限公司")	(5)	PRC/ Chinese Mainland 27 April 2011	RMB10,000,000	–	100%	Sale of pan-entertainment products
Zhejiang Kayou Culture Communications Co., Ltd. ("浙江卡游文化傳播有限公司")	(5)	PRC/ Chinese Mainland 27 February 2018	RMB20,000,000	–	100%	Sale of pan-entertainment products
Zhejiang Kayou Stationery Co., Ltd. ("浙江卡游文具有限公司")	(2)	PRC/ Chinese Mainland 13 September 2021	RMB300,000,000	–	100%	Manufacture of pan-entertainment products
Shenzhen Kayou Technology Co., Ltd. ("深圳卡游科技有限公司")	(4)	PRC/ Chinese Mainland 17 January 2022	RMB200,000,000	–	100%	Design, manufacture and sale of pan-entertainment products
Shanghai Hongkou Culture Development Co., Ltd. ("上海弘口文化發展有限公司")	(4)	PRC/ Chinese Mainland 14 February 2022	RMB5,000,000	–	100%	Design, manufacture and sale of pan-entertainment products

Name	Notes	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Guangdong Kayou Industry Co., Ltd. ("廣東卡游實業有限公司")	(4)	PRC/ Chinese Mainland 30 September 2022	RMB50,000,000	–	100%	Manufacture and sale of pan-entertainment products
Shanghai Kayou Enterprise Management Co., Ltd. ("上海卡游企業管理有限公司")	(4)	PRC/ Chinese Mainland 19 September 2022	US$15,000,000	–	100%	Business administration and sale of pan-entertainment products
Shanghai Huawenxin Culture Communication Co., Ltd. ("上海華文新文化傳播有限公司")	(6)	PRC/ Chinese Mainland 4 April 2023	RMB500,000	–	100%	Design, manufacture and sale of pan-entertainment products
Jiangsu Kayou Trading Co., Ltd. ("江蘇卡游貿易有限公司")	(2)	PRC/ Chinese Mainland 21 December 2021	RMB10,000,000	–	100%	Sale of pan-entertainment products
Zhejiang Kayou Trading Co., Ltd. ("浙江卡游貿易有限公司")	(2)	PRC/ Chinese Mainland 18 October 2021	RMB10,000,000	–	100%	Sale of pan-entertainment products
Guangdong Kayou Trading Co., Ltd. ("廣東卡游貿易有限公司")	(2)	PRC/ Chinese Mainland 13 October 2021	RMB5,000,000	–	100%	Sale of pan-entertainment products
Anhui Kayou Trading Co., Ltd. ("安徽卡游貿易有限公司")	(2)	PRC/ Chinese Mainland 13 October 2021	RMB5,000,000	–	100%	Sale of pan-entertainment products
Hubei Kayou Trading Co., Ltd. ("湖北卡游貿易有限公司")	(2)	PRC/ Chinese Mainland 17 December 2021	RMB1,010,000	–	100%	Sale of pan-entertainment products
Beijing Kayou Trading Co., Ltd. ("北京卡游貿易有限公司")	(2)	PRC/ Chinese Mainland 25 October 2021	RMB1,000,000	–	100%	Sale of pan-entertainment products
Henan Kayou Trading Co., Ltd. ("河南卡游貿易有限公司")	(2)	PRC/ Chinese Mainland 21 October 2021	RMB1,000,000	–	100%	Sale of pan-entertainment products
Guizhou Kayou Trading Co., Ltd. ("貴州卡游貿易有限公司")	(2)	PRC/ Chinese Mainland 20 October 2021	RMB1,000,000	–	100%	Sale of pan-entertainment products
Sichuan Kayou Trading Co., Ltd. ("四川卡游貿易有限公司")	(2)	PRC/ Chinese Mainland 14 October 2021	RMB1,000,000	–	100%	Sale of pan-entertainment products

Name	Notes	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Shaanxi Kayou Trading Co., Ltd. ("陝西卡游貿易有限公司")	(2)	PRC/ Chinese Mainland 14 October 2021	RMB1,000,000	–	100%	Sale of pan-entertainment products
Chongqing Kayou Trading Co., Ltd. ("重慶卡游貿易有限公司")	(2)	PRC/ Chinese Mainland 12 October 2021	RMB1,000,000	–	100%	Sale of pan-entertainment products
Yunnan Kayou Trading Co., Ltd. ("雲南卡游貿易有限公司")	(2)	PRC/ Chinese Mainland 11 October 2021	RMB1,000,000	–	100%	Sale of pan-entertainment products
Liaoning Kayou Trading Co., Ltd. ("遼寧卡游貿易有限公司")	(4)	PRC/ Chinese Mainland 25 February 2022	RMB3,000,000	–	100%	Sale of pan-entertainment products
Tianjin Kayou Trading Co., Ltd. ("天津卡游貿易有限公司")	(4)	PRC/ Chinese Mainland 23 February 2022	RMB1,000,000	–	100%	Sale of pan-entertainment products
Jiangxi Kayou Trading Co., Ltd. ("江西卡游貿易有限公司")	(4)	PRC/ Chinese Mainland 28 February 2022	RMB2,000,000	–	100%	Sale of pan-entertainment products
Shandong Kayou Trading Co., Ltd. ("山東卡游貿易有限公司")	(6)	PRC/ Chinese Mainland 17 May 2023	RMB3,000,000	–	100%	Sale of pan-entertainment products
Hunan Kayou Qinqu Trading Co., Ltd. ("湖南卡游親趣貿易有限公司")	(6)	PRC/ Chinese Mainland 15 May 2023	RMB2,000,000	–	100%	Sale of pan-entertainment products

The English names of the companies registered in the PRC represent the best efforts made by the management of the Company to translate the Chinese names of these companies as they do not have official English names.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results during the Relevant Periods and the nine months ended 30 September 2022 and 2023 or formed a substantial portion of the net assets of the Group.

(1) No audited financial statements have been prepared and issued for this entity as it is not subject to any statutory audit requirement under the relevant rules and regulations in its jurisdiction of establishment.

(2) The entities were established in 2021 and no statutory audited financial statements of the entities have been prepared for the period/year ended 31 December 2021 and 2022.

(3) The statutory financial statements for the year ended 31 December 2022 prepared in accordance with PRC generally accepted accounting principles and regulations have been audited by Shanghai My Whole Way Certified Public Accountants, a certified public accounting firm registered in the PRC. No statutory audited financial statements of the entities have been prepared for the year ended 31 December 2021.

(4) The entities were established in 2022 and no statutory audited financial statements have been prepared since their incorporation or establishment.

(5) No statutory audited financial statements have been prepared for the years ended 31 December 2021 and 2022.

(6) The entities were established in 2023 and no statutory audited financial statements have been prepared since their establishment.

2. ACCOUNTING POLICIES

2.1 Basis of Presentation

In September 2021, Zhejiang Kayou Animation Co., Ltd. ("Kayou Animation"), one of the Company's PRC subsidiaries, entered into share purchase agreements with the Ultimate Controlling Shareholders to acquire 100% equity interests in Kayou (Shanghai) Culture Communications Co., Ltd. ("Kayou Shanghai Culture") and Zhejiang Kayou Culture Communications Co., Ltd. ("Kayou Zhejiang Culture") at aggregate purchase prices of RMB3,184,000 and RMB800,000 in cash, respectively. Kayou Shanghai Culture and Kayou Zhejiang Culture were set up by the Ultimate Controlling Shareholders in 2011 and 2018, respectively, and are principally engaged in sale of pan-entertainment products. The acquisitions of Kayou Shanghai Culture and Kayou Zhejiang Culture were made as part of the Group's strategy to support its business and expand its market share of products in Chinese Mainland. The acquisitions were consummated in December 2021.

Since the Group, Kayou Shanghai Culture and Kayou Zhejiang Culture are under common control of the Ultimate Controlling Shareholders, the Group's acquisitions of Kayou Shanghai Culture and Kayou Zhejiang Culture have been accounted for as a combination of entities under common control with the pooling of interest method applied as if such acquisitions had been completed at the date when the Group, Kayou Shanghai Culture and Kayou Zhejiang Culture came under the common control of the Ultimate Controlling Shareholders. The assets and liabilities of Kayou Shanghai Culture and Kayou Zhejiang Culture were included using the existing book values from the Ultimate Controlling Shareholders' perspective. No adjustments were made to reflect fair values, or recognise any new assets or liabilities as a result of such acquisitions. The results and cash flows of Kayou Shanghai Culture and Kayou Zhejiang Culture were included since the date when Kayou Shanghai Culture and Kayou Zhejiang Culture and the Group came under the common control of the Ultimate Controlling Shareholders. The contribution from the Ultimate Controlling Shareholders to Kayou Shanghai Culture and Kayou Zhejiang Culture and the consideration paid for the acquisitions of Kayou Shanghai Culture and Kayou Zhejiang Culture are accounted for as an equity transaction in merger reserve in the consolidated statement of changes in equity.

Pursuant to the Reorganisation, as more fully explained in the paragraph headed "Reorganization" in the section headed "History, Reorganization and Corporate Structure" in the Document, the Company became the holding company of the companies now comprising the Group on 24 November 2021. The companies now comprising the Group were under the common control of the Ultimate Controlling Shareholders before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the Relevant Periods and the nine months ended 30 September 2022 and 2023 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries first came under the common control of the Ultimate Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2021 and 2022 and 30 September 2023 have been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at those dates. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

All intra-group transactions and balances have been eliminated on consolidation in full.

2.2 Basis of Preparation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB").

All IFRSs effective for the accounting period commencing from 1 January 2023, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods and in the periods covered by the Interim Financial Information.

The Historical Financial Information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss, which have been measured at fair value.

As at 30 September 2023, the Group had net current liabilities of approximately RMB2,743,451,000 (unaudited), which is primarily due to the presentation of the convertible redeemable preferred shares as current liabilities, further details of which are set out in note 27 to the Historical Financial Information. The redemption rights of these shares will be automatically waived upon the [**REDACTED**] of the Company's ordinary shares and the convertible redeemable preferred shares will then be reclassified from liabilities to equity. The directors have reviewed the Group's cash flow projections, which cover a period of at least twelve months from 30 September 2023. Notwithstanding the net current liabilities as at 30 September 2023, the directors of the Company consider that the Group will have sufficient working capital to finance its operation and meets its financial obligations as and when they are due in the foreseeable future, taking into account, inter alia, the historical financial performance and the financial resources available for the next twelve months from 30 September 2023. Accordingly, the directors of the Company consider that it is appropriate to prepare the Historical Financial Information on a going concern basis.

2.3 Issued But Not Yet Effective International Financial Reporting Standards

The Group has not applied the following revised IFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[1]
Amendments to IAS 1	*Non-current Liabilities with Covenants*[1]
Amendments to IAS 7 and IFRS 7	*Supplier Finance Arrangements*[1]
Amendments to IAS 21	*Lack of Exchangeability*[3]

1 Effective for annual periods beginning on or after 1 January 2024

2 No mandatory effective date yet determined but available for adoption

3 Effective for annual periods beginning on or after 1 January 2025

The Group is in the process of making an assessment of the impact of these revised IFRSs upon initial application. So far, the Group considers that, these revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Material Accounting Policies

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Fair value measurement

The Group measures certain of its financial assets, equity investments and financial liabilities at fair value at the end of each of the Relevant Periods and 30 September 2023. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2 – based on valuation techniques for which the lowest level input that is significant to the measurement is observable, either directly or indirectly

- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the reporting periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Category	**Principal annual rate**
Buildings	5.0%
Equipment	10.0%-33.3%
Furniture, fixture and device	10.0%-33.3%
Motor vehicle	20.0%-33.3%
Leasehold improvements	Over the shorter of the lease terms and 20.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year/period end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the reporting period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Other intangible assets

Software

Software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years, which is the license period of the software.

Licensed intellectual properties ("Licensed IPs")

License rights are stated at historical cost less accumulated amortisation and accumulated impairment losses and is amortised on the straight-line basis over its estimated useful life of 15 months to 10 years.

The historical costs of license rights are measured at the present values of the fixed minimum payments at the date of purchase of the respective license rights. Variable payments in relation to license rights that depend on sales or production are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

The useful lives of the Licensed IPs are determined based on shorter of the expected lifecycle of the IPs, and the contractual term of the respective license agreements, during which such assets can bring economic benefit to the Group.

Research and development costs

All research costs are charged to the statements of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises, retail stores and plants	2-5 years
Leasehold land	50 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Financial investments

Unlisted equity investments are classified as financial assets at fair value through profit or loss ("FVTPL Assets"). FVTPL Assets are measured and recorded at fair value with net changes in fair value recognised in profit and loss.

Purchases and sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset.

Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. The Group initially measures receivables, except for trade receivables that do not contain a significant financing component, at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

Receivables are stated at amortised cost, using the effective interest method less allowance for credit losses.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and the Group has a business model to hold the asset in order to collect contractual cash flows.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Trade, bills and other payables

Trade, bills and other payables are initially recognised at fair value. Subsequent to initial recognition, trade, bills and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Borrowings

Borrowings are recognised initially at fair value, net of directly attributable transaction costs incurred. Borrowings are subsequently carried at amortised cost using the effective interest method and are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss. The convertible redeemable preferred shares issued by the Company and commitment derivatives were designated upon initial recognition at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance costs in profit or loss. The component of fair value changes relating to the Company's own credit risk is recognised in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realised. The net fair value changes relating to market risk are recognised in profit or loss which do not include any interest charged on these financial liabilities.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average cost basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Sale of goods

The Group generates revenue from the sale of goods, including sales from distributor channels, sales from retail channels and sales from direct sales channels, which is recognised at the point in time when control of the assets is transferred to the customer.

For sales from distributor channels, revenue is recognised when control of the products has transferred, being when products are delivered to the distributors, the distributors have full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the distributors' acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the distributors, and either the distributors have accepted the products in accordance with the sales contracts, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

For sales from retail channels, revenue is recognised when the control of the products has transferred to the retailers, which is the point of acceptance by the retailers.

For sales from direct sales channels, revenue is recognised when the control of the products has transferred to the end customers.

(b) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(c) Variable consideration: volume-based rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a liability for the expected future rebates is recognised.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Chinese Mainland are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Chinese Mainland are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

All borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Share-based payments

The Company operates a share award scheme. Employees (including directors) and consultants of the Group receive remuneration in the form of share-based payments, whereby employees (including directors) and consultants render services in exchange for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair values of the Group's shares at the grant date. The cost of equity-settled transactions with the consultants is measured by reference indirectly to the fair values of the equity instruments granted at the dates that the counterparties render services as the Group had rebutted the presumption that the fair values of the services received could be estimated reliably. Further details of which are given in note 31 to the Historical Financial Information.

The cost of equity-settled transactions is recognised in employee benefit expense or the expenses for the services provided by the consultants, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding awards is reflected as additional share dilution in the computation of earnings per share.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency because the Group's principal operations are carried out in the PRC. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve, except to the extent that the differences are attributable to non-controlling interests. On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the Historical Financial Information:

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary difference can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are included in note 18 to the Historical Financial Information.

Valuation basis of equity-settled transactions with the consultants

In accounting for equity-settled transactions with the consultants, the Group had rebutted the presumption that the fair values of the services received could be estimated reliably. Therefore, the fair values of the services received are measured by reference indirectly to the fair values of the equity instruments granted which are measured at the dates that the counterparties render services. As the consultancy services are provided continuously throughout the contract period, weighted average fair values are used as an approximation in calculating the fair value of equity instruments, taking into account the fluctuation in equity value during the Relevant Periods and the nine months ended 30 September 2022 and 2023.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods and 30 September 2023, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Variable consideration for volume rebates

The Group estimates variable consideration to be included in the transaction price for the sale of products with volume rebates.

The Group's volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will likely be entitled to a rebate depends on the customer's historical rebate entitlement and accumulated purchases to date.

The Group updates its assessment of expected volume rebates yearly and the sales discount and rebate payables are adjusted accordingly. Estimates of expected volume rebates are sensitive to changes in circumstances and the Group's past experience regarding rebate entitlements may not be representative of a customer's actual rebate entitlements in the future. As at 31 December 2021 and 2022 and 30 September 2023, the amounts recognised as sales discount and rebate payables were RMB52,289,000, RMB31,508,000 and RMB37,552,000 (unaudited) for the expected volume rebates, respectively.

Useful lives of Licensed IPs

The Group has Licensed IPs that are primarily used to design and sell pan-entertainment products. The Group estimates the useful lives of these Licensed IPs to be 15 months to 10 years based on the contracts and expected economic benefits. However, the actual useful lives may be shorter or longer than management's estimate, depending on the market competition. Periodic review could result in a change in useful lives and therefore amortisation expense in future periods.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrated the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the retail sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the Historical Financial Information.

Provision for expected credit losses on other receivables

The Group has applied the probability of default approach to calculate the expected credit losses for other receivables and considered the default event, historical loss rate and adjusted for forward-looking macroeconomic data in calculating the expected credit loss rate. The assessment of the correlation among historical loss rates and forecast economic conditions is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The amount of ECL provision recognised is disclosed in note 21 to the Historical Financial Information.

Fair value of convertible redeemable preferred shares and commitment derivatives

The fair value of the convertible redeemable preferred shares and commitment derivatives measured at fair value through profit or loss is determined using the valuation techniques, including the discounted cash flow method and the option-pricing method. Such valuation is based on key parameters about risk-free rate, discounts for lack of marketability ("DLOM") and volatility, which are subject to uncertainty and might materially differ from the actual results. The fair values of convertible redeemable preferred shares at 31 December 2021 and 2022 and 30 September 2023 were RMB1,768,696,000, RMB3,484,828,000 and RMB3,596,434,000 (unaudited), respectively. Further details are included in note 27 to the Historical Financial Information.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique or a discounted cash flow method as detailed in note 37 to the Historical Financial Information. The valuation requires the Group to determine recent transaction price, volatility, risk-free interest rate, DLOM and the weighted average cost of capital. The Group classifies the fair value of these investments as Level 3. The fair values of the unlisted equity investments at 31 December 2021 and 2022 and 30 September 2023 were nil, RMB12,000,000 and RMB28,718,000 (unaudited), respectively. Further details are included in note 16 to the Historical Financial Information.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-current non-financial assets (including right-of-use assets) at the end of each of the Relevant Periods and 30 September 2023. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate to calculate the present value of those cash flows. The carrying amounts of property, plant and equipment, right-of-use assets, other intangible assets and other non-current assets are set out in notes 13, 14, 15 and 17 to the Historical Financial Information.

Service period of the consultancy services

The Group assesses the service period of the consultancy services to be provided by the consultants, for which the Group agreed to settle the consideration by the Company's shares, based on the progress of the completion of the consultants' services. The service period starts from the date when the consultants have begun rendering services under the mutually agreed consultancy service agreements and ends at the date when the consultants have fulfilled all of their performance targets. Further details are included in note 31 to the Historical Financial Information.

4. OPERATING SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company. During the Relevant Periods and the nine months ended 30 September 2022 and 2023, the Group was principally engaged in the design, manufacture and sale of pan-entertainment products, including toys and stationery products. Management reviews the operating results of the Group's business as one operating segment for the purpose of making decisions about resource allocation and performance assessment. Therefore, the chief operating decision maker of the Company regards that there is only one segment which is used to make strategic decisions.

Geographical information

No geographical information is presented as the Group's revenue from the external customers is derived solely from its operation in Chinese Mainland and no non-current assets of the Group are located outside Chinese Mainland.

Information about major customers

No revenue from sales to a single customer or a group of customers under common control accounted for 10% or more of the Group's revenue for each of the Relevant Periods and the nine months ended 30 September 2022 and 2023.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents income from the sale of products during the Relevant Periods and the nine months ended 30 September 2022 and 2023.

An analysis of revenue is as follows:

	Year ended 31 December		Nine months ended 30 September	
	2021	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
Revenue from contracts with customers				
Sales from distributor channels	2,225,013	3,826,887	3,405,205	1,585,027
Sales from retail channels	55,715	88,451	66,804	175,124
Sales from direct sales channels	17,608	215,786	180,055	191,326
Sale of goods	2,298,336	4,131,124	3,652,064	1,951,477
Geographical market				
Chinese Mainland	2,298,336	4,131,124	3,652,064	1,951,477
Timing of revenue recognition				
Revenue recognised at a point in time	2,298,336	4,131,124	3,652,064	1,951,477

The following table shows the amounts of revenue recognised in the Relevant Periods and the nine months ended 30 September 2022 and 2023 that were included in the contract liabilities at the beginning of each reporting period:

	Year ended 31 December		Nine months ended 30 September	
	2021	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
Revenue recognised that was included in contract liabilities at the beginning of the period:				
Sale of goods	183,010	39,310	39,310	60,107

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation of sale of goods is satisfied upon delivery of the products and payment in advance is normally required, except for customers with credit terms, where payment is generally due within two months from delivery. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration.

There is unsatisfied performance obligation for sale of goods at the end of each of the Relevant Periods and 30 September 2023. As permitted under IFRS 15, the Group applies the practical expedient, and does not disclose the transaction price allocated to unsatisfied performance obligations for contracts of sale of goods, which are generally with an original expected duration of one year or less.

Other income and gains

		Year ended 31 December		Nine months ended 30 September	
	Notes	**2021**	**2022**	**2022**	**2023**
		RMB'000	*RMB'000*	*RMB'000 (Unaudited)*	*RMB'000 (Unaudited)*
Other income					
Government grants and subsidies					
– related to income	*(i)*	2,898	9,316	7,341	16,146
– related to assets	*(ii)*	–	1,432	1,074	1,074
Bank interest income		1,815	27,357	20,749	32,942
Others		519	4,019	2,327	4,394
		5,232	42,124	31,491	54,556
Gains					
Foreign exchange differences, net		1,190	1,311	1,311	–
Gain arising from early termination of leases		–	1,421	801	1,087
		1,190	2,732	2,112	1,087
Total other income and gains		6,422	44,856	33,603	55,643

(i) The government grants and subsidies related to income have been received to reward for the Group's contribution to the local economic growth. These grants are related to income and recognised in profit or loss upon receipt of these grants. There are no unfulfilled conditions or contingencies relating to these grants.

(ii) The Group has received certain government grants related to the investments in production plants. The grants related to assets were recognised in profit or loss over the useful lives of relevant assets. Details of these grants related to assets are set out in note 28 to the Historical Financial Information.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December 2021	Year ended 31 December 2022	Nine months ended 30 September 2022	Nine months ended 30 September 2023
		RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Cost of inventories sold*		963,293	1,288,839	1,101,287	637,173
Depreciation of property, plant and equipment	13	28,290	98,129	66,999	91,522
Depreciation of right-of-use assets	14(a)	13,626	54,623	38,438	49,746
Amortisation of other intangible assets	15	2,215	13,587	9,098	12,682
Lease payments not included in the measurement of lease liabilities	14(c)	10,171	16,715	12,136	10,714
Research and development costs**		108,116	250,666	161,138	122,936
Employee benefit expense (including directors' and chief executive's remuneration as set out in note 8):					
Wages and salaries		132,763	335,493	250,606	313,289
Social welfare		9,716	40,926	29,094	48,710
Pension scheme contributions***		2,722	20,322	13,776	18,977
		145,201	396,741	293,476	380,976
Equity-settled share-based payment expenses of consultants	31	39,334	199,600	134,669	203,349
Foreign exchange differences, net		(1,190)	(1,311)	(1,311)	–
Impairment losses recognised on financial assets/(reversal of impairment losses on financial assets), net:					
Impairment losses recognised on trade receivables/(reversal of impairment losses on trade receivables), net	20	(10,760)	22,199	20,472	2,502
Impairment losses recognised on other receivables, net	21	–	18,150	18,150	–
		(10,760)	40,349	38,622	2,502
Impairment of inventories/(reversal of impairment of inventories)		(1,814)	8,679	8,145	11,303
Fair value changes of financial liabilities at fair value through profit or loss	27	909,171	1,716,132	1,548,224	111,606
Fair value changes of financial assets at fair value through profit or loss, net	16	–	–	–	1,282
Loss on disposal of items of property, plant and equipment		17,546	476	476	130
[**REDACTED**] expenses		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

* Cost of inventories sold include expenses relating to depreciation of property, plant and equipment, amortisation of other intangible assets, depreciation of right-of-use assets and staff costs, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

** Research and development costs include expenses relating to depreciation of property, plant and equipment, amortisation of other intangible assets, depreciation of right-of-use assets and staff costs, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

*** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December		Nine months ended 30 September	
	2021	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
Interest on interest-bearing bank borrowings	–	–	–	1,517
Interest on lease liabilities	1,857	5,246	3,867	3,733
	1,857	5,246	3,867	5,250

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

(i) On 27 May 2021, Mr. Li Qibin was appointed as an executive director, chief executive officer and the chairman of the board of directors of the Company.

(ii) On 15 December 2021, Mr. Guo Yue was appointed as an executive director of the Company and Dr. Su Kai was appointed as a non-executive director of the Company.

(iii) On 11 January 2024, Ms. Qi Yan was appointed as a non-executive director of the Company.

Certain of the directors received remuneration from the subsidiaries now comprising the Group prior to their appointment as the directors of the Company. Details of the remuneration received or receivable by the directors from the group entities are as follows:

	Year ended 31 December		Nine months ended 30 September	
	2021	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
Fees:				
Directors	–	–	–	–
Other emoluments:				
Salaries, allowances and benefits in kind	3,604	5,840	4,370	4,410
Performance related bonuses*	960	270	203	101
Pension scheme contributions and social welfare	294	402	297	320
	4,858	6,512	4,870	4,831
	4,858	6,512	4,870	4,831

* Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

(a) Independent non-executive directors

Subsequent to the end of the Relevant Periods, Mr. Li Chung Kwong Andrew, Mr. Chan Wan Tsun Adrian Alan and Prof. Chen Jie were appointed as independent non-executive directors of the Company. There were no fees and other emoluments paid to the independent non-executive directors during the Relevant Periods and the nine months ended 30 September 2022 and 2023.

(b) Executive directors, non-executive directors and the chief executive

Year ended 31 December 2021

	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions and social welfare	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Chief executive and executive director:				
Mr. Li Qibin[(i)]	1,600	–	85	1,685
Executive director:				
Mr. Guo Yue[(ii)]	804	960	109	1,873
Non-executive directors:				
Ms. Qi Yan[(iii)]	1,200	–	100	1,300
Dr. Su Kai[(ii)]	–	–	–	–
	1,200	–	100	1,300
	3,604	960	294	4,858

Year ended 31 December 2022

	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions and social welfare	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Chief executive and executive director:				
Mr. Li Qibin(i)	3,600	–	134	3,734
Executive director:				
Mr. Guo Yue(ii)	1,040	270	134	1,444
Non-executive directors:				
Ms. Qi Yan(iii)	1,200	–	134	1,334
Dr. Su Kai(ii)	–	–	–	–
	1,200	–	134	1,334
	5,840	270	402	6,512

Nine months ended 30 September 2022

	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions and social welfare	Total
	RMB'000 *(Unaudited)*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
Chief executive and executive director:				
Mr. Li Qibin(i)	2,700	–	99	2,799
Executive director:				
Mr. Guo Yue(ii)	770	203	99	1,072
Non-executive directors:				
Ms. Qi Yan(iii)	900	–	99	999
Dr. Su Kai(ii)	–	–	–	–
	900	–	99	999
	4,370	203	297	4,870

Nine months ended 30 September 2023

	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions and social welfare	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Chief executive and executive director:				
Mr. Li Qibin(i)	2,700	–	107	2,807
Executive director:				
Mr. Guo Yue(ii)	810	101	107	1,018
Non-executive directors:				
Ms. Qi Yan(iii)	900	–	106	1,006
Dr. Su Kai(ii)	–	–	–	–
	900	–	106	1,006
	4,410	101	320	4,831

No remunerations were paid or payable by the Group to the directors and a chief executive as an inducement to join or upon joining the Group or a compensation for loss of office during the Relevant Periods and the nine months ended 30 September 2022 and 2023.

There was no arrangement under which a director waived or agreed to waive any remunerations during the Relevant Periods and the nine months ended 30 September 2022 and 2023.

9. FIVE HIGHEST PAID EMPLOYEES

The five individuals with the highest emoluments in the Group for the years ended 31 December 2021 and 2022 and the nine months ended 30 September 2022 and 2023 include two, one, one and one directors disclosed above, respectively. Details of the directors' remuneration are set out in note 8 above. Details of the remuneration of the remaining three, four, four and four highest paid employees who are neither a director nor chief executive of the Company for the years ended 31 December 2021 and 2022 and the nine months ended 30 September 2022 and 2023 are as follows:

	Year ended 31 December		**Nine months ended 30 September**	
	2021	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
Salaries, allowances and benefits in kind	2,332	6,815	4,877	5,601
Performance related bonuses*	2,560	1,245	769	769
Pension scheme contributions and social welfare	332	334	242	374
	5,224	8,394	5,888	6,744

* Certain highest paid employees of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

The numbers of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands are as follows:

	Year ended 31 December		**Nine months ended 30 September**	
	2021	**2022**	**2022**	**2023**
			(Unaudited)	*(Unaudited)*
HK$1,000,001 to HK$1,500,000	–	–	2	3
HK$1,500,001 to HK$2,000,000	1	2	1	–
HK$2,000,001 to HK$2,500,000	2	1	1	–
HK$3,000,001 to HK$3,500,000	–	–	–	1
HK$3,500,001 to HK$4,000,000	–	1	–	–
	3	4	4	4

10. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the Company and the Group's subsidiaries incorporated in the BVI are not subject to any income tax. The Group's subsidiary incorporated in Hong Kong was not liable for income tax as it did not have any assessable profits arising in Hong Kong during the Relevant Periods and the nine months ended 30 September 2022 and 2023.

PRC corporate income tax has been provided at the rate of 25% on the taxable profits of the Group's PRC subsidiaries for the Relevant Periods and the nine months ended 30 September 2022 and 2023.

Certain of the Group's PRC subsidiaries are accredited as "High and New Technology Enterprises" and were therefore entitled to a preferential income tax rate of 15% for the years ended 31 December 2021 and 2022, and the nine months ended 30 September 2022 and 2023. Such qualifications are subject to review by the relevant tax authority in the PRC for every three years.

Certain of the Group's PRC subsidiaries are qualified as small and micro enterprises and were entitled to preferential corporate income tax rates of 2.5% to 10% during 2021 and 2022 and 5% during 2023, respectively.

The income tax expense of the Group for the Relevant Periods and the nine months ended 30 September 2022 and 2023 is analysed as follows:

	Year ended 31 December		**Nine months ended 30 September**	
	2021	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
Current – PRC				
Charge for the year/period	137,586	289,372	298,763	113,468
Deferred *(note 18)*	36,855	88,254	76,636	(8,251)
	174,441	377,626	375,399	105,217

A reconciliation of tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the income tax expense at the effective income tax rate for each of the Relevant Periods and the nine months ended 30 September 2022 and 2023 is as follows:

	Year ended 31 December		Nine months ended 30 September	
	2021	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
Profit before tax	21,260	81,599	260,154	365,379
Tax at the PRC corporate income tax rate of 25%	5,315	20,400	65,039	91,345
Expenses not deductible for tax	237,126	479,972	421,468	80,279
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	45,000	105,000	100,000	–
Effect of tax concessions	(87,206)	(165,038)	(179,681)	(39,294)
Research and development super deduction	(25,794)	(62,708)	(31,427)	(27,113)
Tax charge at the Group's effective rate	174,441	377,626	375,399	105,217

11. DIVIDENDS

No dividends have been paid or declared by the Company since its date of incorporation.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the Relevant Periods and the nine months ended 30 September 2022 and 2023. In addition, following the subsequent share subdivision by one-for-one hundred occurred on [date] as described in note 39 to the Historical Financial Information (the "Share Subdivision"), the weighted average number of ordinary shares in issue was adjusted by taking into account the effect of the Share Subdivision on a retrospective basis as if the Share Subdivision had been in issue for the whole Relevant Periods and the nine months ended 30 September 2022 and 2023.

The calculation of basic earnings/(loss) per share is based on:

Earnings/(loss) per share	**Year ended 31 December**		**Nine months ended 30 September**	
	2021	**2022**	**2022**	**2023**
			(Unaudited)	*(Unaudited)*
Earnings/(loss)				
Profit/(loss) attributable to ordinary equity holders of the parent (RMB'000)	(153,181)	(296,027)	(115,245)	260,162
Shares				
Weighted average number of ordinary shares in issue during the year/period used in the basic earnings/(loss) per share calculation	600,000,000	1,000,000,000	1,000,000,000	1,000,000,000
Basic earnings/(loss) per share (RMB)	(0.26)	(0.30)	(0.12)	0.26

The Group has dilutive potential ordinary shares, which are convertible redeemable preferred shares and restricted share units ("RSUs").

Diluted earnings/(loss) per share is calculated based on the profit/(loss) attributable to ordinary equity holders of the parent for the Relevant Periods and the nine months ended 30 September 2022 and 2023, adjusted for the effect of the fair value changes on convertible redeemable preferred shares. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the Relevant Periods and the nine months ended 30 September 2022 and 2023, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

As the Group incurred losses during the years ended 31 December 2021 and 2022 and the nine months ended 30 September 2022, the potential ordinary shares were not included in the calculation of diluted loss per share as the potential ordinary shares had an anti-dilutive effect. Accordingly, the diluted loss per share for the years ended 31 December 2021 and 2022 and the nine months ended 30 September 2022 are the same as the basic loss per share.

The Group excluded the convertible redeemable preferred shares issued by the Company from the diluted earnings per share calculation during the nine months ended 30 September 2023, as their effect would have been anti-dilutive.

The calculation of diluted earnings/(loss) per share is based on:

Earnings/(loss) per share	**Year ended 31 December**		**Nine months ended 30 September**	
	2021	**2022**	**2022**	**2023**
			(Unaudited)	*(Unaudited)*
Earnings/(loss)				
Profit/(loss) attributable to ordinary equity holders of the parent (RMB'000)	(153,181)	(296,027)	(115,245)	260,162
Shares				
Weighted average number of ordinary shares in issue during the year/period used in the basic earnings/(loss) per share calculation	600,000,000	1,000,000,000	1,000,000,000	1,000,000,000
Adjustments for:				
RSUs granted to consultants	–	–	–	39,215,485
Adjusted weighted average number of ordinary shares during the year/period used in the diluted earnings/(loss) per share calculation	600,000,000	1,000,000,000	1,000,000,000	1,039,215,485
Diluted earnings/(loss) per share (RMB)	(0.26)	(0.30)	(0.12)	0.25

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Equipment	Furniture, fixture and device	Motor vehicle	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2021							
At 1 January 2021:							
Cost	–	123,479	6,010	14,953	17,490	–	161,932
Accumulated depreciation	–	(6,722)	(377)	(1,372)	(933)	–	(9,404)
Net carrying amount	–	116,757	5,633	13,581	16,557	–	152,528
At 1 January 2021, net of accumulated depreciation	–	116,757	5,633	13,581	16,557	–	152,528
Additions	23,990	51,079	24,143	7,165	52,363	19,425	178,165
Depreciation provided during the year	(23)	(14,427)	(3,818)	(4,063)	(5,959)	–	(28,290)
Disposals	(17,546)	–	–	–	–	–	(17,546)
At 31 December 2021, net of accumulated depreciation	6,421	153,409	25,958	16,683	62,961	19,425	284,857
At 31 December 2021:							
Cost	6,444	174,558	30,153	22,118	69,853	19,425	322,551
Accumulated depreciation	(23)	(21,149)	(4,195)	(5,435)	(6,892)	–	(37,694)
Net carrying amount	6,421	153,409	25,958	16,683	62,961	19,425	284,857

	Buildings	Equipment	Furniture, fixture and device	Motor vehicle	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2022							
At 1 January 2022:							
Cost	6,444	174,558	30,153	22,118	69,853	19,425	322,551
Accumulated depreciation	(23)	(21,149)	(4,195)	(5,435)	(6,892)	–	(37,694)
Net carrying amount	6,421	153,409	25,958	16,683	62,961	19,425	284,857
At 1 January 2022, net of accumulated depreciation	6,421	153,409	25,958	16,683	62,961	19,425	284,857
Additions	271,606	60,893	15,329	10,302	73,605	215,040	646,775
Depreciation provided during the year	(6,759)	(24,257)	(9,976)	(5,760)	(51,377)	–	(98,129)
Transfers	–	100,141	500	–	2,552	(103,193)	–
Disposals	–	–	(4)	(2,607)	–	–	(2,611)
At 31 December 2022, net of accumulated depreciation	271,268	290,186	31,807	18,618	87,741	131,272	830,892
At 31 December 2022:							
Cost	278,050	335,592	45,977	29,491	146,010	131,272	966,392
Accumulated depreciation	(6,782)	(45,406)	(14,170)	(10,873)	(58,269)	–	(135,500)
Net carrying amount	271,268	290,186	31,807	18,618	87,741	131,272	830,892

	Buildings	Equipment	Furniture, fixture and device	Motor vehicle	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
30 September 2023							
At 1 January 2023:							
Cost	278,050	335,592	45,977	29,491	146,010	131,272	966,392
Accumulated depreciation	(6,782)	(45,406)	(14,170)	(10,873)	(58,269)	–	(135,500)
Net carrying amount	271,268	290,186	31,807	18,618	87,741	131,272	830,892
At 1 January 2023, net of accumulated depreciation	271,268	290,186	31,807	18,618	87,741	131,272	830,892
Additions	–	83,561	7,813	11,228	54,366	1,222,263	1,379,231
Depreciation provided during the period	(9,881)	(25,360)	(10,491)	(6,525)	(39,265)	–	(91,522)
Transfers	(5,257)	54,038	–	–	31,179	(79,960)	–
Disposals	–	(119)	–	(21)	–	–	(140)
At 30 September 2023, net of accumulated depreciation	256,130	402,306	29,129	23,300	134,021	1,273,575	2,118,461
At 30 September 2023:							
Cost	272,793	473,041	53,790	40,626	231,555	1,273,575	2,345,380
Accumulated depreciation	(16,663)	(70,735)	(24,661)	(17,326)	(97,534)	–	(226,919)
Net carrying amount	256,130	402,306	29,129	23,300	134,021	1,273,575	2,118,461

As at 31 December 2021 and 2022 and 30 September 2023, the Group had construction in progress with net carrying amounts of nil, nil and RMB1,047,379,000 (unaudited), respectively, in the process of building ownership certificate application.

14. LEASES

The Group as a lessee

The Group has lease contracts for items of office premises, retail stores and plants used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of office premises, retail stores and plants generally have lease terms between 2 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased office premises, retail stores and plants outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the Relevant Periods and the nine months ended 30 September 2023 are as follows:

	Office premises, retail stores and plants *RMB'000*	**Leasehold land** *RMB'000*	**Total** *RMB'000*
As at 1 January 2021	5,146	–	5,146
Additions	112,231	28,931	141,162
Depreciation charge	(13,551)	(75)	(13,626)
As at 31 December 2021 and 1 January 2022	103,826	28,856	132,682
Additions	117,193	56,911	174,104
Termination	(33,186)	–	(33,186)
Depreciation charge	(53,290)	(1,333)	(54,623)
As at 31 December 2022 and 1 January 2023	134,543	84,434	218,977
Additions (Unaudited)	24,764	1,870	26,634
Termination (Unaudited)	(12,591)	–	(12,591)
Depreciation charge (Unaudited)	(48,140)	(1,606)	(49,746)
As at 30 September 2023 (Unaudited)	98,576	84,698	183,274

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the Relevant Periods and the nine months ended 30 September 2023 are as follows:

	31 December		30 September
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
Carrying amount at beginning of year/period	5,146	104,579	137,432
New leases	112,231	117,193	24,764
Accretion of interest recognised during the year/period	1,857	5,246	3,733
Payments	(14,655)	(54,979)	(51,084)
Termination	–	(34,607)	(13,678)
Carrying amount at end of year/period	104,579	137,432	101,167
Analysed into:			
Current portion	33,905	58,432	56,462
Non-current portion	70,674	79,000	44,705
Analysed into:			
Within one year	33,905	58,432	56,462
In the second year	29,674	51,036	33,294
In the third to fifth years, inclusive	41,000	27,964	11,411
	104,579	137,432	101,167

As at 31 December 2021 and 2022 and 30 September 2023, the Group had lease liabilities to Ms. Qi Yan, one of the Ultimate Controlling Shareholders, with balances of RMB49,387,000, RMB42,761,000 and RMB33,996,000 (unaudited), respectively.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	Year ended 31 December		Nine months ended 30 September	
	2021	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
Interest on lease liabilities	1,857	5,246	3,867	3,733
Depreciation charge of right-of-use assets	13,626	54,623	38,438	49,746
Lease payments not included in the measurement of lease liabilities	10,171	16,715	12,136	10,714
Gain arising from early termination of leases	–	(1,421)	(801)	(1,087)
Total amount recognised in profit or loss	25,654	75,163	53,640	63,106

(d) The total cash outflows for leases are disclosed in note 32(c) to the Historical Financial Information.

15. OTHER INTANGIBLE ASSETS

	Licensed IPs	Software	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2021			
At 1 January 2021:			
Cost	1,350	–	1,350
Accumulated amortisation	(315)	–	(315)
Net carrying amount	1,035	–	1,035
At 1 January 2021, net of accumulated amortisation	1,035	–	1,035
Additions	12,194	436	12,630
Amortisation provided during the year	(2,211)	(4)	(2,215)
At 31 December 2021, net of accumulated amortisation	11,018	432	11,450
At 31 December 2021:			
Cost	13,544	436	13,980
Accumulated amortisation	(2,526)	(4)	(2,530)
Net carrying amount	11,018	432	11,450
31 December 2022			
At 1 January 2022, net of accumulated amortisation	11,018	432	11,450
Additions	15,301	3,523	18,824
Amortisation provided during the year	(13,372)	(215)	(13,587)
At 31 December 2022, net of accumulated amortisation	12,947	3,740	16,687
At 31 December 2022:			
Cost	28,846	3,959	32,805
Accumulated amortisation	(15,899)	(219)	(16,118)
Net carrying amount	12,947	3,740	16,687

	Licensed IPs	Software	Total
	RMB'000 (Unaudited)	*RMB'000 (Unaudited)*	*RMB'000 (Unaudited)*
30 September 2023			
At 1 January 2023:			
Cost	28,846	3,959	32,805
Accumulated amortisation	(15,899)	(219)	(16,118)
Net carrying amount	12,947	3,740	16,687
At 1 January 2023, net of accumulated amortisation	12,947	3,740	16,687
Additions	11,493	1,347	12,840
Amortisation provided during the period	(12,371)	(311)	(12,682)
At 30 September 2023, net of accumulated amortisation	12,069	4,776	16,845
At 30 September 2023:			
Cost	37,839	5,274	43,113
Accumulated amortisation	(25,770)	(498)	(26,268)
Net carrying amount	12,069	4,776	16,845

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December		30 September
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000 (Unaudited)*
Unlisted equity investments, at fair value			
Qiubi (Shenzhen) Technology Co., Ltd.	–	12,000	10,002
Hangzhou Jinka Animation Culture Co., Ltd.	–	–	18,716
Total	–	12,000	28,718

The investment in Qiubi (Shenzhen) Technology Co., Ltd. ("Qiubi") is in the form of ordinary shares with preferred rights. The Group has the right to require and demand the investee to redeem all of the shares held by the Group at the amount of the higher of the fair value of the shares held by the Group and the guaranteed predetermined fixed amount upon the occurrence of redemption events which are outside control of the issuers. Accordingly, this investment in associate is not determined to be in-substance ordinary shares (i.e. not carrying rights that are substantially the same as the investee's ordinary shares and providing returns associated with those ordinary shares) and is accounted for as hybrid financial instruments, which is measured at fair value through profit or loss in accordance with IFRS 9.

The investment in Hangzhou Jinka Animation Culture Co., Ltd. ("Jinka") is classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

The movements of these financial assets at fair value through profit or loss during the Relevant Periods and the nine months ended 30 September 2023 are as follows:

	31 December		**30 September**
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
At the beginning of year/period	–	–	12,000
Additions	–	12,000	18,000
Total losses recognised in profit or loss	–	–	(1,282)
At end of year/period	–	12,000	28,718

17. OTHER NON-CURRENT ASSETS

	31 December		**30 September**
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
Prepayment for property, plant and equipment	481,479	1,206,026	179,239

18. DEFERRED TAX

The movements in deferred tax assets during the Relevant Periods and the nine months ended 30 September 2023 are as follows:

	Impairment of assets	Accruals	Losses available for offsetting against future taxable profits	Unrealised profits arising from intra-group transactions	Lease liabilities	Deferred income	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	3,577	–	2,159	74	772	–	6,582
Deferred tax (charged)/credited to profit or loss during the year	(2,964)	7,843	563	2,501	18,726	–	26,669
Gross deferred tax assets at 31 December 2021	613	7,843	2,722	2,575	19,498	–	33,251
At 1 January 2022	613	7,843	2,722	2,575	19,498	–	33,251
Deferred tax credited/(charged) to profit or loss during the year	12,017	(1,474)	11,439	2,328	6,527	1,933	32,770
Gross deferred tax assets at 31 December 2022	12,630	6,369	14,161	4,903	26,025	1,933	66,021
At 1 January 2023	12,630	6,369	14,161	4,903	26,025	1,933	66,021
Deferred tax credited/(charged) to profit or loss during the period (Unaudited)	1,830	651	3,553	3,740	(8,145)	(161)	1,468
Gross deferred tax assets at 30 September 2023 (Unaudited)	14,460	7,020	17,714	8,643	17,880	1,772	67,489

As at 31 December 2021 and 2022 and 30 September 2023, deferred tax assets have been recognised in respect of all tax losses arising in Chinese Mainland, respectively, which will expire in one to five years for offsetting against future taxable profits.

The movements in deferred tax liabilities during the Relevant Periods and the nine months ended 30 September 2023 are as follows:

	Right-of-use assets	Accelerated tax depreciation	Withholding taxes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	772	–	–	772
Deferred tax charged to profit or loss during the year	18,524	–	45,000	63,524
Gross deferred tax liabilities at 31 December 2021	19,296	–	45,000	64,296
At 1 January 2022	19,296	–	45,000	64,296
Deferred tax charged to profit or loss during the year	6,139	9,885	105,000	121,024
Gross deferred tax liabilities at 31 December 2022	25,435	9,885	150,000	185,320
At 1 January 2023	25,435	9,885	150,000	185,320
Deferred tax credited to profit or loss during the period (Unaudited)	(8,038)	1,255	–	(6,783)
Gross deferred tax liabilities at 30 September 2023 (Unaudited)	17,397	11,140	150,000	178,537

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Chinese Mainland. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Chinese Mainland in respect of earnings generated from 1 January 2008.

Deferred tax liabilities have been recognised at 31 December 2021 and 2022 and 30 September 2023 for the withholding tax that would be payable on the earnings of certain subsidiaries incorporated in PRC that are expected to be distributed in the foreseeable future. The remaining undistributed earnings generated from 1 January 2008, for which withholding tax is not provided for, amounted to RMB256,606,000, RMB570,488,000 and RMB773,955,000 (unaudited) as at 31 December 2021 and 2022 and 30 September 2023, respectively.

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statements of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	31 December		30 September
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
Net deferred tax assets recognised in the consolidated statements of financial position	14,016	40,889	50,092
Net deferred tax liabilities recognised in the consolidated statements of financial position	45,061	160,188	161,140

19. INVENTORIES

	31 December		30 September
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
Raw materials	157,654	55,780	77,516
Finished goods	72,487	166,437	266,123
Work in progress	6,665	20,779	20,978
Provision for impairment of inventories	(4,021)	(12,700)	(24,003)
	232,785	230,296	340,614

20. TRADE RECEIVABLES

	31 December		30 September
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
Trade receivables	66,388	67,210	107,545
Impairment	(53)	(22,252)	(24,754)
Net carrying amount	66,335	44,958	82,791

Advance payment is normally required in Chinese Mainland except for certain retailers where credits are granted. The credit period is generally two months for major retailers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. The balances of trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods and 30 September 2023, based on the invoice date and net of loss allowance, is as follows:

	31 December		30 September
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
Within 1 month	55,353	22,560	36,718
1 to 3 months	10,969	16,576	34,014
3 to 6 months	–	4,867	3,053
6 months to 1 year	13	955	9,006
	66,335	44,958	82,791

The movements in the loss allowance for impairment of trade receivables are as follows:

	31 December		30 September
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
At beginning of year/period	10,813	53	22,252
(Reversal of impairment losses)/impairment losses recognised, net	(10,760)	22,199	2,502
At end of year/period	53	22,252	24,754

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group writes off trade receivables when there is information indicating that the counterparty is in severe financial difficulties and there is no realistic prospect of recovery, e.g., when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner, also taking into account legal advice where appropriate.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Individual assessment	Current	Past Due: 1 to 3 months	Past Due: 3 to 6 months	Past Due: 6 months to 1 year	Past Due: Over 1 year	Total
At 31 December 2021							
Expected credit loss rate	–	0.00%	0.00%	0.06%	17.40%	100.00%	0.08%
Gross carrying amount (RMB'000)	–	55,353	10,969	–	16	50	66,388
Expected credit losses (RMB'000)	–	–	–	–	3	50	53
At 31 December 2022							
Expected credit loss rate	100.00%	0.00%	0.00%	0.08%	24.98%	100.00%	33.11%
Gross carrying amount (RMB'000)	21,612	22,560	16,576	4,871	1,273	318	67,210
Expected credit losses (RMB'000)	21,612	–	–	4	318	318	22,252
At 30 September 2023 (Unaudited)							
Expected credit loss rate	100.0%	0.00%	0.00%	0.06%	25.72%	100.00%	23.02%
Gross carrying amount (RMB'000)	21,571	36,718	34,014	3,055	12,124	63	107,545
Expected credit losses (RMB'000)	21,571	–	–	2	3,118	63	24,754

In the opinion of the Company's directors, the business and customer risk portfolio of the Group remained stable and there were no significant fluctuations in the historical credit loss incurred. In addition, there is no significant change with regard to economic indicators based on an assessment of forward-looking information.

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	31 December		30 September
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
Value-added tax recoverable	1,805	94,120	11,907
Prepayments to suppliers	32,798	68,320	38,703
Deposits	8,595	43,372	37,039
Prepaid expenses	26,561	36,636	28,588
Due from related parties	5,789	7,022	1,865
Due from related parties for issuance of ordinary shares	122,239	122,239	122,239
Due from shareholders for issuance of convertible redeemable preferred shares	3,821	–	–
Others	2,546	3,500	3,520
	204,154	375,209	243,861
Impairment	(1,500)	(19,650)	(19,650)
	202,654	355,559	224,211

As at 31 December 2021 and 2022 and 30 September 2023, included in the Group's prepayments, other receivable and other assets were amounts due from the Group's related parties of RMB128,028,000, RMB129,261,000 and RMB124,104,000 (unaudited), respectively, which were unsecured, interest-free and repayable on demand.

The movements in the loss allowance for impairment of prepayments, other receivables and other assets are as follows:

	31 December		30 September
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
At beginning of year/period	1,500	1,500	19,650
Impairment losses recognised, net	–	18,150	–
At end of year/period	1,500	19,650	19,650

Financial assets included in prepayments, other receivables and other assets are unsecured, non-interest-bearing and repayable on demand. The impairment of financial assets included in prepayments, other receivables and other assets was measured based on 12-month expected credit losses if they had not a significant increase in credit risk since initial recognition. Otherwise, they were measured based on lifetime expected credit losses.

22. CASH AND CASH EQUIVALENTS AND LONG-TERM BANK DEPOSITS

	31 December		30 September
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
			(Unaudited)
Cash and cash equivalents	1,091,056	594,153	980,339
Long-term bank deposits	–	691,219	695,258
Denominated in:			
Cash and cash equivalents			
RMB	234,162	589,381	945,812
USD	856,894	4,772	34,527
	1,091,056	594,153	980,339
Long-term bank deposits			
RMB	–	691,219	695,258

The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earn interest at floating rates based on daily bank deposit rates. The bank deposits are made for periods of three years depending on the cash management of the Group, and earn interest at a fixed rate of 3.0% per annum. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximated to their fair values.

23. TRADE AND BILLS PAYABLES

Trade and bills payables are non-interest bearing and normally settled on terms of 30 to 90 days. An ageing analysis of the trade and bills payables as at the end of each of the Relevant Periods and 30 September 2023, based on the invoice date, is as follows:

	31 December		30 September
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
Within 1 month	85,549	74,320	197,395
1 to 3 months	12,343	25,809	31,856
3 to 6 months	5,068	32,749	6,228
6 months to 1 year	3,538	3,747	3,961
Over 1 year	11,904	9,850	7,986
	118,402	146,475	247,426

As at 31 December 2021 and 2022 and 30 September 2023, included in the Group's trade and bills payables were amounts due to the related parties of RMB4,992,000, RMB5,075,000 and nil (unaudited), respectively.

24. OTHER PAYABLES AND ACCRUALS

	31 December		30 September
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000* (*Unaudited*)
Payroll and welfare payable	39,412	74,643	72,256
Sales discount and rebate payables	52,289	31,508	37,552
Payables for purchase of property, plant and equipment	5,547	9,926	31,843
Accrued expenses	15,140	24,069	21,350
Amounts due to related parties	17,798	22,345	1,638
Due to related parties for acquisition of a subsidiary now comprising the Group	122,239	–	–
Due to shareholders for acquisition of a subsidiary now comprising the Group	3,780	–	–
Deposits	4,250	6,340	6,484
Tax payable other than corporate income tax	55,266	10,610	14,634
Others	57,116	62,966	51,880
	372,837	242,407	237,637

Other payables are unsecured, non-interest-bearing and repayable on demand.

As at 31 December 2021 and 2022 and 30 September 2023, included in the Group's other payables and accruals were amounts due to the Group's related parties of RMB140,037,000, RMB22,345,000 and RMB1,638,000 (unaudited), respectively, which are interest-free, unsecured and repayable on demand.

25. INTEREST-BEARING BANK BORROWINGS

	31 December						30 September		
	2021			2022			2023		
	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000
	(%)			*(%)*			*(%)*		
							(Unaudited)	*(Unaudited)*	*(Unaudited)*
Bank loans – secured	N/A	N/A	–	3.80	2023	50,000	3.25	2024	50,000

The Group's bank facilities amounted to RMB210,000,000 and RMB210,000,000 (unaudited), of which RMB50,000,000 and RMB50,000,000 (unaudited) had been utilised, as at 31 December 2022 and 30 September 2023, respectively. As at 31 December 2022 and 30 September 2023, all of the Group's bank facilities were guaranteed by the Company's Ultimate Controlling Shareholders, Mr. Li Qibin and Ms. Qi Yan as disclosed in note 35 to the Historical Financial Information.

26. CONTRACT LIABILITIES

	1 January	31 December		30 September
	2021	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
Advances received from customers	183,010	39,310	60,107	131,217

Contract liabilities of the Group mainly arise from advance payments made by customers for goods yet to be delivered. The decrease in contract liabilities as at 31 December 2021 and the increase in contract liabilities as at 31 December 2022 and 30 September 2023 was mainly due to the decrease/increase of short-term advances received from customers in relation to the sale of goods at the end of that year/period.

27. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December		30 September
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
			(Unaudited)
Convertible redeemable preferred shares	1,768,696	3,484,828	3,596,434
Commitment derivatives	–	–	–
	1,768,696	3,484,828	3,596,434

Convertible redeemable preferred shares

The Group and the Company

Since the date of incorporation, the Company has completed financing by issuing a series of convertible redeemable series A preferred shares ("Preferred Shares") as follows:

	Date of issuance	Purchase price	Number of shares	Total consideration
		(US$/share)		*US$'000*
Series A Preferred Shares	15 December 2021	76.50	1,764,706	135,000

The key terms of the Preferred Shares are summarised as follows:

(a) Conversion feature

Each preferred share shall be convertible, at the option of the preferred shareholders ("Holders") thereof, at any time after the date of issuance, and without the payment of any additional consideration by the Holders thereof, into such number of fully paid ordinary shares as is determined by dividing the applicable deemed original issue price for the series A Preferred Shares by the conversion price for the series A Preferred Shares in effect ("Conversion Price") at the time of conversion. The Conversion Price shall be subject to adjustment from time to time, including but not limited to share splits and combinations, share dividends and distributions, reorganisation, consolidations or reclassifications, and adjustment upon issuance of new securities for a consideration per share less than the conversion price.

All outstanding Preferred Shares shall automatically be converted into ordinary shares at the applicable ratio upon the closing of an [**REDACTED**] implying a [**REDACTED**] market capitalisation of the Company that is no less than [**REDACTED**] ("[**REDACTED**]"), or with respect to the series A Preferred Shares, the date and time, or the occurrence of an event, specified in a written request for such conversion delivered to the Company by the Holders of at least a majority of the series A Preferred Shares then outstanding, voting together as a single class on an as-converted to ordinary shares basis.

The convertible redeemable preferred shares will be converted to ordinary shares upon the [**REDACTED**] of the Company's ordinary shares.

(b) Redemption feature

Notwithstanding anything to the contrary herein, if (i) the Company fails to complete a [**REDACTED**] by the fifth (5th) anniversary of the date on which the Preferred Shares were issued; or (ii) any material breach by any of the group companies and/or the founder parties of any terms of the transaction documents or applicable laws, regulations or accounting principles, the investors may initiate to request the Company to redeem all or part of the outstanding Preferred Shares (the "Redemption").

The redemption price for each Preferred Share of the Company shall be an amount equal to 100% of the applicable share issue price, minus all distributed dividends and compensation thereon, and plus interest accrued at the rate of eight percentage (8%) of the share issue price per annum starting from the applicable issue date (the "Series A Preference Amount").

(c) Liquidation preferences

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or any of the following events: (i) liquidation, dissolution or winding up of the Company, whether voluntary or involuntary; or (ii) sale of shares, merger, consolidation or other similar transaction involving the Company as a result of which its shareholders immediately prior to such transaction will cease to own more than fifty percent (50%) of the equity securities or voting power in the surviving or resulting entity immediately following the consummation of such transaction; or (iii) a sale, lease, transfer or other disposition of all or substantially all the group companies' assets; or (iv) a sale, transfer or exclusive license of all or substantially all of the intellectual properties of the group companies ("Deemed Liquidation Event") that shall be distributed to holders of Preferred Shares in the sequence below:

The liquidation price for each Preferred Share of the Company shall be an amount equal to 110% of the applicable share issue price, minus all distributed dividends and compensation thereon. If, upon any such liquidation, distribution, winding up or Deemed Liquidation Event of the Company, the assets of the Company shall be insufficient to pay the holders of Preferred Shares in full on all preferred shares, then such assets shall be distributed among the holders of Preferred Shares, in proportion to the full amounts to which they would otherwise be respectively entitled thereon.

After distribution or payment in full of the liquidation price, the remaining assets of the Company available for distribution to members shall be distributed to all holders of issued and outstanding ordinary shares and Preferred Shares pro rata on an as-converted basis.

(d) Voting rights

Each Preferred Share shall carry a number of votes equal to the number of ordinary shares then issuable upon its conversion into ordinary shares at the record date for determination of the shareholders entitled to vote on such matters, or, if no such record date is established, at the date such vote is taken or any written consent of shareholders is solicited. The Holders shall be entitled to vote on all matters on which the holders of ordinary shares shall be entitled to vote.

(e) Presentation and classification

The Group designated the host debt and conversion derivative of Preferred Shares as financial liabilities measured as fair values through profit or loss. Changes in fair value of Preferred Shares were recorded in "fair value changes of financial liabilities at fair value through profit or loss". Management considered that fair value changes in the Preferred Shares attributable to changes of own credit risk are not significant.

The movements of the convertible redeemable preferred shares included in financial liabilities at fair value through profit or loss as at 31 December 2021 and 2022 and 30 September 2023 are set out below:

	31 December		30 September
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000 (Unaudited)*
At beginning of year/period	–	1,768,696	3,484,828
Issuance of Series A preferred shares	1,768,696	–	–
Fair value change	–	1,716,132	111,606
At end of year/period	1,768,696	3,484,828	3,596,434

Commitment derivatives

The Group and the Company

The issuance of Preferred Shares to certain investors would not be consummated before they complete their registrations for overseas direct investment. The Group has commitments to its Preferred Share investors to issue its Preferred Shares at a predetermined price upon the fulfillment of the closing conditions. Therefore, the Group designated such commitments as financial liabilities measured as fair values through profit or loss. Changes in fair value of such commitments were recorded in "fair value changes of financial liabilities at fair value through profit or loss".

The movements of the commitment derivatives included in financial liabilities at fair value through profit or loss as at 31 December 2021 and 2022 and 30 September 2023 are set out below:

	31 December		30 September
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
At beginning of year/period	–	–	–
Change in fair value	909,171	–	–
Issuance of Series A preferred shares	(909,171)	–	–
At end of year/period	–	–	–

The Group applied the discount cash flow method to determine the equity value of the Company and adopted the option-pricing method to determine the fair values of the financial liabilities at fair value through profit or loss as at 31 December 2021 and 2022 and 30 September 2023. Key valuation assumptions used to determine the fair values of the convertible redeemable preferred shares and commitment derivatives are set as below:

	31 December		30 September
	2021	2022	2023
			(Unaudited)
Discount rate	16.0%	15.0%	15.0%
Risk-free interest rate	1.2%	4.2%	4.9%
Discounts for lack of marketability ("DLOM")	28.0%	18.0%	17.0%
Volatility	45.6%	49.0%	44.4%

The Group estimated the risk-free interest rate based on the yield of the USD America Government Bond with maturity close to the expected exit timing as at the valuation date. The DLOM was estimated based on the option-pricing method. Under the option-pricing method, the cost of redemption option, which can hedge the price change before the privately held share can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated based on the annualised standard deviation of daily stock price return of comparable companies for a period from the valuation date and with a similar time span to expiration.

28. DEFERRED INCOME

	31 December		30 September
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
Government grants	–	12,886	11,812

Movements in government grants of the Group during the Relevant Periods and the nine months ended 30 September 2023 are as follows:

	31 December		30 September
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
At beginning of year/period	–	–	12,886
Government grants received	–	14,318	–
Credited to the profit or loss during the year/period	–	(1,432)	(1,074)
At end of year/period	–	12,886	11,812

The Group received government grants for capital expenditure incurred for property, plant and equipment. The amounts are deferred and amortised over the estimated useful lives of the respective assets.

29. SHARE CAPITAL

The Group and the Company

The Company was incorporated on 27 May 2021 with authorised share capital of US$50,000 divided into 500,000,000 ordinary shares with a par value of US$0.0001 each.

Upon the completion of the Reorganisation on 15 December 2021, the authorised share capital of the Company was re-designated as US$50,000 divided into 498,235,294 ordinary shares with a par value of US$0.0001 each and 1,764,706 Series A preferred shares with a par value of US$0.0001 each, as mentioned above in note 27 to the Historical Financial Information.

	31 December		30 September
	2021	**2022**	**2023**
			(Unaudited)
Authorised:			
Number of ordinary shares of US$0.0001 each	498,235,294	498,235,294	498,235,294
Number of Series A preferred shares of US$0.0001 each	1,764,706	1,764,706	1,764,706
Issued and fully paid:			
Number of ordinary shares of US$0.0001 each	10,000,000	10,000,000	10,000,000
Par value of ordinary shares (RMB)	6,403	6,403	6,403
Number of Series A preferred shares of US$0.0001 each	1,764,706	1,764,706	1,764,706
Par value of ordinary shares (RMB)	1,125	1,125	1,125

On 27 May 2021, 10,000,000 ordinary shares were issued and allotted by the Company to various BVI holding platforms held by the Ultimate Controlling Shareholders at par value with a consideration of US$1,000 in total.

On 15 December 2021, 1,764,706 Series A preferred Shares were issued and allotted by the Company to HSG Growth VI Holdco E, Ltd. (formerly known as SCC Growth VI Holdco E, Ltd.) and Grand Hematite Limited, independent third parties, at par value.

30. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2021 and 2022 and the nine months ended 30 September 2022 and 2023 are presented in the consolidated statements of changes in equity.

(i) Merger reserve

As at 31 December 2021 and 2022 and 30 September 2023, the merger reserve of the Group represents the paid-up capital of the companies comprising the Group prior to the incorporation of the Company. Additionally, it also represents the paid-up capital and capital reserve of the subsidiaries acquired by the Company pursuant to the Reorganisation as mentioned in note 2.1 to the Historical Financial Information.

(ii) Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association of the subsidiaries established in the PRC, the Group is required to allocate 10% of its net profit after tax, as determined under the Chinese Accounting Standards, to the statutory surplus funds until the reserve balance reaches 50% of its registered capital. Subject to certain restrictions set out in the relevant PRC regulations and in the articles of association of these subsidiaries, the statutory surplus funds may be used either to offset losses, or to be converted to increase the share capital of the subsidiaries provided that the balance after such conversion is not less than 25% of the registered capital of them. The reserve cannot be used for purposes other than those for which it is created and is not distributable as cash dividends.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements for operations outside of Chinese Mainland.

(iv) Share-based payment reserve

The share-based payment reserve represents reserves arising from equity-settled share-based payment transactions.

The Company

A summary of the Company's reserves is as follows:

	Share-based payment reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*
At 27 May 2021 (date of incorporation)			
Total comprehensive loss for the period	–	(907,981)	(907,981)
Share-based payments	39,334	–	39,334
At 31 December 2021 and 1 January 2022	39,334	(907,981)	(868,647)
Total comprehensive loss for the year	–	(1,715,883)	(1,715,883)
Share-based payments	199,600	–	199,600
At 31 December 2022 and 1 January 2023	238,934	(2,623,864)	(2,384,930)
Total comprehensive loss for the period (Unaudited)	–	(111,608)	(111,608)
Share-based payments (Unaudited)	203,349	–	203,349
At 30 September 2023 (Unaudited)	442,283	(2,735,472)	(2,293,189)

31. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

In May 2021, the Group and eligible consultants of the Group, including one connected person of the Group and one independent third party, entered into service agreements pursuant to which the Group agreed to issue RSUs, at a price of US$0.0001 per share, for the consultancy services to be provided by the consultants (the "Service Agreements"). According to the Service Agreements, the number of RSUs to be issued is subject to the consultants' fulfillment of the performance conditions required under the Service Agreements. Based on management's best estimate, the performance conditions can be fulfilled in approximately thirty-two months. In January 2024, the issuance of the RSUs of the Company in connection with the Service Agreements was officially approved by the Company under a pre-[**REDACTED**] equity incentive plan (the "Pre-[**REDACTED**] Equity Incentive Plan") with RSUs of 392,155 issued to the consultants at a price of US$0.0001 per share. There are no other vesting conditions attached with the respective RSUs, and the RSUs are considered duly and validly issued to the holders, with restrictions on transfer of such entitlements which shall be lifted on the earlier of (i) the first anniversary of the date on which the shares of the Company are [**REDACTED**], or (ii) the second anniversary of 11 January 2024 (the "Lock-up Period").

The aforesaid transactions have been accounted for as share-based payments transactions as the consultants were providing services to the Group during the vesting periods and hence the Group enjoyed the benefits. Given the specific nature of the services, management considered that there was no available market price for the services at the agreed dates. The Group had rebutted the presumption that the fair value of the services could be estimated reliably. Accordingly, the fair value of services received in return for the RSUs agreed is measured by reference to the fair value of the award agreed. The fair value of the RSUs agreed to the consultants under the Service Agreements was estimated by reference to the fair value of the underlying shares of the Company in the same period, taking into account the terms and conditions upon which the RSUs were agreed.

The fair value of the RSUs agreed under the Service Agreements at the agreement date was determined to be RMB54.0 per share and the weighted average fair value of the RSUs during the service period was RMB400.4, RMB1,358.2 and RMB1,850.0 (unaudited) per share during the Relevant Periods and the nine months ended 30 September 2023, respectively.

The Group recognised total expenses of RMB39,334,000, RMB199,600,000 and RMB203,349,000 (unaudited) for the years ended 31 December 2021 and 2022 and the nine months ended 30 September 2023, respectively in relation to the Service Agreements.

32. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

During the Relevant Periods and the nine months ended 30 September 2022 and 2023, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB112,231,000 and RMB112,231,000, RMB117,193,000 and RMB117,193,000, RMB94,805,000 (unaudited) and RMB94,805,000 (unaudited), and RMB24,764,000 (unaudited) and RMB24,764,000 (unaudited), respectively, in respect of lease arrangements for office premises, retail stores and plant.

(b) Changes in liabilities arising from financing activities

	Lease liabilities	Financial liabilities at fair value through profit or loss	Interest-bearing bank borrowings
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2021	5,146	–	–
Changes from financing cash flows	(14,655)	855,704	–
Consideration receivable from issuance of convertible redeemable preferred shares of the Company	–	3,821	–
New leases	112,231	–	–
Interest expense	1,857	–	–
Fair value changes	–	909,171	–
At 31 December 2021 and 1 January 2022	104,579	1,768,696	–
Changes from financing cash flows	(54,979)	–	50,000
New leases	117,193	–	–
Lease termination	(34,607)	–	–
Interest expense	5,246	–	–
Fair value changes	–	1,716,132	–
At 31 December 2022	137,432	3,484,828	50,000

	Lease liabilities	Financial liabilities at fair value through profit or loss	Interest-bearing bank borrowings
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*
At 1 January 2022	104,579	1,768,696	–
Changes from financing cash flows	(39,414)	–	–
New leases	94,805	–	–
Lease termination	(25,814)	–	–
Interest expense	3,867	–	–
Fair value changes	–	1,548,224	–
At 30 September 2022	138,023	3,316,920	–
At 1 January 2023	137,432	3,484,828	50,000
Changes from financing cash flows	(51,084)	–	(1,517)
New leases	24,764	–	–
Lease termination	(13,678)	–	–
Interest expense	3,733	–	1,517
Fair value changes	–	111,606	–
At 30 September 2023	101,167	3,596,434	50,000

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statements of cash flows is as follows:

	Year ended 31 December		Nine months ended 30 September	
	2021	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	*(Unaudited)*
Within operating activities	10,171	16,715	12,136	10,714
Within financing activities	14,655	54,979	39,414	51,084
	24,826	71,694	51,550	61,798

33. CONTINGENT LIABILITIES

As at the end of each of the Relevant Periods and 30 September 2023, the Group did not have any material contingent liabilities.

34. COMMITMENTS

The Group had the following contractual commitments at the end of each of the Relevant Periods and 30 September 2023:

	31 December		30 September
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
			(Unaudited)
Contracted, but not provided for:			
Property, plant and equipment	957,538	542,628	228,164

35. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties:

The Group had the following material transactions carried out with related parties during the Relevant Periods and the nine months ended 30 September 2022 and 2023:

	Year ended 31 December		Nine months ended 30 September	
	2021	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	*(Unaudited)*
Sale of goods:				
A company influenced by the Ultimate Controlling Shareholders of the Company *(i)(iv)*	1,448	17,359	17,469	–
Original Equipment Manufacturer ("OEM") services fees:				
Companies influenced by the Ultimate Controlling Shareholders of the Company *(ii)(iv)*	21,539	29,008	24,833	13,096
Rental fees:				
One of the Ultimate Controlling Shareholders of the Company *(ii)*	49	591	443	443
Interest expenses on lease liabilities:				
One of the Ultimate Controlling Shareholders of the Company *(iii)*	1,445	2,028	1,550	1,250

Notes:

(i) The sales to the related party were made according to the published prices and conditions offered to the major customers.

(ii) The prices for the services and rental fees were determined in accordance with the terms and conditions mutually agreed by the contracting parties.

(iii) During the year ended 31 December 2021, the Group entered into 5-year lease agreements for the use of office with Ms. Qi Yan, one of the Ultimate Controlling Shareholders, with right-of-use assets and lease liabilities both amounting to RMB55,908,000 recognised at inception. During the year ended 31 December 2022, the Group entered into 4-year lease agreements for the use of office with Ms. Qi Yan, with right-of-use assets and lease liabilities both amounting to RMB4,297,000 recognised at inception. The amounts of lease liabilities as at 31 December 2021 and 2022 and 30 September 2023 were RMB49,387,000, RMB42,761,000 and RMB33,996,000 (unaudited), respectively, as disclosed in note 14 to the Historical Financial Information.

(iv) Beetles Animation Co., Ltd., Zhejiang Beetles Animation Products Co., Ltd., and Beetles Printing & Packaging Co., Ltd., which provided OEM services to the Group, and Beetles (Shanghai) Network Technology Co., Ltd. which purchased goods from the Group (together, the "Beetles Group") have been identified as related parties of the Group as they were held as to 35% by the Ultimate Controlling Shareholders of the Group during the Relevant Periods and the nine months ended 30 September 2023. Thus, the Ultimate Controlling Shareholders have significant influence over the Beetles Group. On 5 September 2023, the Ultimate Controlling Shareholders disposed of all of their equity interests in the Beetles Group to independent third parties and the Beetles Group ceased to be related parties of the Group since then.

(b) Outstanding balances with related parties

		31 December		30 September
	Notes	**2021**	**2022**	**2023**
		RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
Non-trade related				
Prepayments, other receivables and other assets				
Companies influenced by the Ultimate Controlling Shareholders of the Company	*21*	4,185	5,418	–
The Ultimate Controlling Shareholders of the Company	*21*	123,843	123,843	124,104
		128,028	129,261	124,104
Trade related				
Trade and bills payables				
Companies influenced by the Ultimate Controlling Shareholders of the Company	*23*	4,992	5,075	–
Non-trade related				
Other payables and accruals				
Companies influenced by the Ultimate Controlling Shareholders of the Company	*24*	8,599	13,146	–
The Ultimate Controlling Shareholders of the Company	*24*	131,438	9,199	1,638
		140,037	22,345	1,638

As at 31 December 2021 and 2022 and 30 September 2023, the Group's outstanding balances with related parties were all unsecured, interest-free and repayable on demand.

(c) Guarantees

As disclosed in note 25 to the Historical Financial Information, all of the Group's bank borrowings and unutilised banking facilities were guaranteed by the Company's Ultimate Controlling Shareholders.

The guarantee had been fully released subsequently.

(d) Compensation of key management personnel of the Group

	Year ended 31 December		Nine months ended 30 September	
	2021	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000 (Unaudited)*	*RMB'000 (Unaudited)*
Salaries, allowances and benefits in kind	4,562	9,624	6,972	7,956
Performance related bonuses	1,920	1,212	909	618
Pension scheme contributions and social welfare	416	603	441	524
Total compensation paid to key management personnel	6,898	11,439	8,322	9,098

Further details of directors' and the chief executive's emoluments are included in note 8 to the Historical Financial Information.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

31 December 2021	**Financial assets at fair value through profit or loss**	**Financial assets at amortised cost**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	–	66,335	66,335
Financial assets included in prepayments, other receivables and other assets	–	141,490	141,490
Cash and cash equivalents	–	1,091,056	1,091,056
	–	1,298,881	1,298,881

31 December 2022	**Financial assets at fair value through profit or loss**	**Financial assets at amortised cost**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets at fair value through profit or loss	12,000	–	12,000
Trade receivables	–	44,958	44,958
Financial assets included in prepayments, other receivables and other assets	–	156,483	156,483
Long-term bank deposits	–	691,219	691,219
Cash and cash equivalents	–	594,153	594,153
	12,000	1,486,813	1,498,813

30 September 2023	**Financial assets at fair value through profit or loss**	**Financial assets at amortised cost**	**Total**
	RMB'000 *(Unaudited)*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
Financial assets at fair value through profit or loss	28,718	–	28,718
Trade receivables	–	82,791	82,791
Financial assets included in prepayments, other receivables and other assets	–	145,013	145,013
Long-term bank deposits	–	695,258	695,258
Cash and cash equivalents	–	980,339	980,339
	28,718	1,903,401	1,932,119

Financial liabilities

31 December 2021	**Financial liabilities at fair value through profit or loss**	**Financial liabilities at amortised cost**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Financial liabilities at fair value through profit or loss	1,768,696	–	1,768,696
Trade and bills payables	–	118,402	118,402
Financial liabilities included in other payables and accruals	–	225,870	225,870
Lease liabilities	–	104,579	104,579
	1,768,696	448,851	2,217,547

31 December 2022	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	–	50,000	50,000
Financial liabilities at fair value through profit or loss	3,484,828	–	3,484,828
Trade and bills payables	–	146,475	146,475
Financial liabilities included in other payables and accruals	–	125,646	125,646
Lease liabilities	–	137,432	137,432
	3,484,828	459,553	3,944,381

30 September 2023	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	RMB'000 *(Unaudited)*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
Interest-bearing bank borrowings	–	50,000	50,000
Financial liabilities at fair value through profit or loss	3,596,434	–	3,596,434
Trade and bills payables	–	247,426	247,426
Financial liabilities included in other payables and accruals	–	113,195	113,195
Lease liabilities	–	101,167	101,167
	3,596,434	511,788	4,108,222

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade and bills payables, interest-bearing bank borrowings, financial assets included in prepayments, other receivables and other assets, and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of financial liabilities at fair value through profit of loss are determined using the option-pricing method using significant unobservable market inputs. Details of the method were disclosed in note 27 to the Historical Financial Information.

The fair values of long-term bank deposits have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The carrying amounts of long-term bank deposits approximate to their fair values.

The fair values of the unlisted equity investments included in financial assets at fair value through profit or loss have been estimated using a market-based valuation technique or a discounted cash flow method based on assumptions that are not supported by observable market prices or rates. Management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2021 and 2022 and 30 September 2023:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Financial assets at fair value through profit or loss – unlisted equity investments *(Qiubi)*	Recent transaction price	Recent transaction price	31 December 2022: N/A	N/A
			30 September 2023 (unaudited): N/A	N/A
		Risk-free interest rate	31 December 2022: 2.6%	10% increase/decrease in the multiple would result in decrease/increase in fair value by RMB71,000/ RMB71,000
			30 September 2023 (unaudited): 2.6%	10% increase/decrease in the multiple would result in decrease/increase in fair value by RMB15,000/ RMB14,000

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Financial assets at fair value through profit or loss – unlisted equity investments *(Qiubi)* (continued)	Recent transaction price	Volatility	31 December 2022: 44.9%	10% increase/decrease in the multiple would result in increase/decrease in fair value by RMB230,000/ RMB210,000
			30 September 2023 (unaudited): 44.0%	10% increase/decrease in the multiple would result in increase/decrease in fair value by RMB285,000/ RMB325,000
Financial assets at fair value through profit or loss – unlisted equity investments *(Jinka)*	Discounted cash flow method	Weighted average cost of capital	30 September 2023 (unaudited): 16.0%	10% increase/decrease in the multiple would result in decrease/increase in fair value by RMB2,835,000/ RMB3,726,000
		DLOM	30 September 2023 (unaudited): 30.0%	10% increase/decrease in the multiple would result in decrease/increase in fair value by RMB686,000/ RMB686,000

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Financial liabilities at fair value through profit or loss	Option-pricing method	Risk-free interest rate	31 December 2021: 1.2%	10% increase/decrease in the multiple would result in decrease/increase in fair value by RMB2,660,000/ RMB2,678,000
			31 December 2022: 4.2%	10% increase/decrease in the multiple would result in decrease/increase in fair value by RMB4,460,000/ RMB4,549,000
			30 September 2023 (unaudited): 4.9%	10% increase/decrease in the multiple would result in decrease/increase in fair value by RMB3,177,000/ RMB3,236,000
		Volatility	31 December 2021: 45.6%	10% increase/decrease in the multiple would result in increase/decrease in fair value by RMB8,015,000/ RMB10,814,000
			31 December 2022: 49.0%	10% increase/decrease in the multiple would result in increase/decrease in fair value by RMB9,710,000/ RMB9,012,000
			30 September 2023 (unaudited): 44.4%	10% increase/decrease in the multiple would result in increase/decrease in fair value by RMB5,320,000/ RMB4,405,000

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Financial liabilities at fair value through profit or loss (continued)	Option-pricing method	DLOM	31 December 2021: 28.0%	10% increase/decrease in the multiple would result in decrease/increase in fair value by RMB44,547,000/ RMB44,670,000
			31 December 2022: 18.0%	10% increase/decrease in the multiple would result in decrease/increase in fair value by RMB66,031,000/ RMB66,080,000
			30 September 2023 (unaudited): 17.0%	10% increase/decrease in the multiple would result in decrease/increase in fair value by RMB64,023,000/ RMB64,056,000

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2022				
Financial assets at fair value through profit or loss	–	–	12,000	12,000
As at 30 September 2023 (Unaudited)				
Financial assets at fair value through profit or loss	–	–	28,718	28,718

Liabilities measured at fair value

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2021				
Financial liabilities at fair value through profit or loss	–	–	1,768,696	1,768,696
As at 31 December 2022				
Financial liabilities at fair value through profit or loss	–	–	3,484,828	3,484,828
As at 30 September 2023 (Unaudited)				
Financial liabilities at fair value through profit or loss	–	–	3,596,434	3,596,434

During the Relevant Periods and the nine months ended 30 September 2023, there were no transfers into or out of Level 3 for both financial assets and financial liabilities.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise the convertible redeemable preferred shares, lease liabilities and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity as at 31 December 2021 and 2022 and 30 September 2023 to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the retranslated value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in USD/RMB rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	*RMB'000*	*RMB'000*
31 December 2021			
If RMB weakens against USD	5	42,845	32,134
If RMB strengthens against USD	(5)	(42,845)	(32,134)
31 December 2022			
If RMB weakens against USD	5	239	179
If RMB strengthens against USD	(5)	(239)	(179)
30 September 2023 (Unaudited)			
If RMB weakens against USD	5	1,726	1,295
If RMB strengthens against USD	(5)	(1,726)	(1,295)

(b) Credit risk

The carrying amounts of cash and cash equivalents, long-term bank deposits, trade receivables and financial assets included in prepayments, other receivables and other assets included in the consolidated statements of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets as at 31 December 2021 and 2022 and 30 September 2023. The Group classifies financial instruments on the basis of shared credit risk characteristics, such as instrument types and credit risk ratings for the purpose of determining significant increases in credit risk and calculation of impairment.

Cash and cash equivalents and long-term bank deposits

As at 31 December 2021 and 2022 and 30 September 2023, all cash and cash equivalents and long-term bank deposits were deposited in high-credit-quality financial institutions without significant credit risk. These financial assets were not yet past due and their credit exposure is classified as stage 1.

Trade receivables

To manage the risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made only to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the Group's counterparties. The credit period granted to the customers is generally two months and the credit quality of these customers is assessed, taking into account their financial position, past experience and other factors. The Group also has other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In addition, the Group reviews regularly the recoverable amount of trade receivables to ensure that adequate impairment losses are made. The Group has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers.

The Group applies the simplified approach to provide for ECLs prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The expected credit losses also incorporate forward-looking information based on key economic variables such as inflation rate.

Other receivables and assets

Management makes periodic collective assessments for financial assets included in prepayments, other receivables and other assets, and financial assets included in other non-current assets as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The Group recognised allowance for these financial assets based on 12-month ECL, lifetime ECLs and adjusted for forward-looking macroeconomic data.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2021 and 2022 and 30 September 2023. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	**Lifetime ECLs**			
31 December 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	–	–	–	66,388	66,388
Financial assets included in prepayments, other receivables and other assets					
– Normal**	142,990	–	–	–	142,990
– Doubtful**	–	–	1,500	–	1,500
Cash and cash equivalents					
– Not yet past due	1,091,056	–	–	–	1,091,056
	1,234,046	–	1,500	66,388	1,301,934

	12-month ECLs	Lifetime ECLs			
31 December 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	–	–	–	67,210	67,210
Financial assets included in prepayments, other receivables and other assets					
– Normal**	176,133	–	–	–	176,133
– Doubtful**	–	–	19,650	–	19,650
Long-term bank deposits					
– Not yet past due	691,219	–	–	–	691,219
Cash and cash equivalents					
– Not yet past due	594,153	–	–	–	594,153
	1,461,505	–	19,650	67,210	1,548,365

	12-month ECLs	Lifetime ECLs			
30 September 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000 *(Unaudited)*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
Trade receivables*	–	–	–	107,545	107,545
Financial assets included in prepayments, other receivables and other assets					
– Normal**	164,663	–	–	–	164,663
– Doubtful**	–	–	19,650	–	19,650
Long-term bank deposits					
– Not yet past due	695,258	–	–	–	695,258
Cash and cash equivalents					
– Not yet past due	980,339	–	–	–	980,339
	1,840,260	–	19,650	107,545	1,967,455

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the Historical Financial Information.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance for continuity of funding to finance its working capital needs as well as capital expenditure.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods and 30 September 2023, based on contractual undiscounted payments, is as follows:

31 December 2021	**Within 1 year**	**Over 1 year**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payables	118,402	–	118,402
Financial liabilities included in other payables and accruals	225,870	–	225,870
Lease liabilities	38,471	76,583	115,054
Financial liabilities at fair value through profit or loss	931,185	–	931,185
	1,313,928	76,583	1,390,511

31 December 2022	**Within 1 year**	**Over 1 year**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payables	146,475	–	146,475
Financial liabilities included in other payables and accruals	125,646	–	125,646
Lease liabilities	49,247	80,787	130,034
Interest-bearing bank borrowings	51,900	–	51,900
Financial liabilities at fair value through profit or loss	1,092,413	–	1,092,413
	1,465,681	80,787	1,546,468

30 September 2023	**Within 1 year**	**Over 1 year**	**Total**
	RMB'000 *(Unaudited)*	*RMB'000* *(Unaudited)*	*RMB'000* *(Unaudited)*
Trade and bills payables	247,426	–	247,426
Financial liabilities included in other payables and accruals	113,195	–	113,195
Lease liabilities	58,820	45,412	104,232
Interest-bearing bank borrowings	51,625	–	51,625
Financial liabilities at fair value through profit or loss	1,184,324	–	1,184,324
	1,655,390	45,412	1,700,802

(d) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirement. No change was made in the objectives, policies or processes for managing capital during the Relevant Periods and the nine months ended 30 September 2023.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes lease liabilities but excludes financial liabilities designated at fair value through profit or loss). Adjusted capital comprises all components of equity and financial liabilities designated at fair value through profit or loss. The adjusted net debt-to-capital ratios as at 31 December 2021 and 2022 and 30 September 2023 were as follows:

	31 December		30 September
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*
Total liabilities	2,572,919	4,394,532	4,589,063
Less: Financial liabilities at fair value through profit or loss	(1,768,696)	(3,484,828)	(3,596,434)
Adjusted net debt	804,223	909,704	992,629
Equity/(deficiency in assets) attributable to owners of the parent	(55,605)	(152,876)	310,779
Add: financial liabilities at fair value through profit or loss	1,768,696	3,484,828	3,596,434
Adjusted capital	1,713,091	3,331,952	3,907,213
Adjusted net debt-to-capital ratio	46.9%	27.3%	25.4%

39. EVENTS AFTER THE RELEVANT PERIODS

Adoption of the Pre-*[REDACTED] *Equity Incentive Plan

In January 2024, the Group adopted the Pre-[**REDACTED**] Equity Incentive Plan and approved the issuance of RSUs of 915,034 at a price of US$0.0001 per share to Mr. Li Qibin and RSUs of 392,155 at a price of US$0.0001 per share to eligible consultants, respectively.

Issuance of ordinary shares

Up to the date of this report, a total of 1,307,189 RSUs were vested under the Pre-[**REDACTED**] Equity Incentive Plan, resulting in the issuance of 1,307,189 ordinary shares of the Company in January 2024.

***Share subdivision upon* [REDACTED]**

As approved by the Company's shareholders' general meeting held on [date], immediately before the [**REDACTED**], the ordinary shares of the Company will be split on an one-for-one hundred basis, and the par value of the shares will be changed from US$0.0001 each to US$0.000001 each.

40. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the subsidiaries in respect of any period subsequent to 30 September 2023.

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

Set out below is a summary of certain provisions of the constitution of the Company and certain aspects of the company laws of the Cayman Islands.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 May 2021 under the Companies Act. The Company's constitutional documents consist of the Memorandum of Association and the Articles of Association.

1. MEMORANDUM OF ASSOCIATION

The Memorandum provides, *inter alia*, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted (and therefore include acting as an investment holding company) and that the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on [●] and will become effective on the [**REDACTED**]. A summary of certain provisions of the Articles is set out below.

2.1 Shares

(a) Classes of Shares

The share capital of the Company consists of a single class of ordinary shares.

(b) Variation of Rights of Existing Shares or Classes of Shares

If at any time the share capital of the Company is divided into different classes of Shares, all or any of the rights attached to any class of Shares for the time being issued (unless otherwise provided by the terms of issue of the Shares of that class) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of at least three-fourths of the issued Shares of that class, or with the approval of a resolution passed by at least three-fourths of the votes cast by the holders of the Shares of that class present and voting in person or by proxy at a separate meeting of such holders. The provisions of the Articles relating to general meetings shall apply *mutatis mutandis* to every such separate meeting, except that the necessary quorum shall be two persons together holding (or, in the case of a member being a corporation, by its duly authorised representative), or representing by proxy, at least one-third of the issued Shares of that class. Every holder of Shares of the class shall be entitled on a poll to one vote for every such Share held by him, and any holder of Shares of the class present in person or by proxy may demand a poll.

For the purposes of a separate class meeting, the Board may treat two or more classes of Shares as forming one class of Shares if the Board considers that such classes of Shares would be affected in the same way by the proposals under consideration, but in any other case shall treat them as separate classes of Shares.

Any rights conferred upon the holders of Shares of any class shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of the Shares of that class, be deemed to be varied by the creation or issue of further Shares ranking *pari passu* therewith.

(c) Alteration of Capital

The Company may by ordinary resolution:

(i) increase its share capital by the creation of new Shares of such amount and with such rights, priorities and privileges attached to such Shares as it may determine;

(ii) consolidate and divide all or any of its share capital into Shares of a larger amount than its existing Shares. On any consolidation of fully paid Shares and division into Shares of a larger amount, the Board may settle any difficulty which may arise as it thinks expedient and, in particular (but without prejudice to the generality of the foregoing), may as between the holders of Shares to be consolidated determine which particular Shares are to be consolidated into a consolidated Share, and if it shall happen that any person shall become entitled to fractions of a consolidated Share or Shares, such fractions may be sold by some person appointed by the Board for that purpose and the person so appointed may transfer the Shares so sold to the purchaser(s) thereof and the validity of such transfer shall not be questioned, and the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated Share or Shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(iii) sub-divide its Shares or any of them into Shares of an amount smaller than that fixed by the Memorandum; and

(iv) cancel any Shares which, as at the date of passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the Shares so cancelled.

The Company may by special resolution reduce its share capital or any undistributable reserve, subject to the provisions of the Companies Act.

(d) Transfer of Shares

Subject to the terms of the Articles, any member of the Company may transfer all or any of his Shares by an instrument of transfer. If the Shares in question were issued in conjunction with rights, options, warrants or units issued pursuant to the Articles on terms that one cannot be transferred without the other, the Board shall refuse to register the transfer of any such Share without evidence satisfactory to it of the like transfer of such right, option, warrant or unit.

Subject to the Articles and the requirements of the Stock Exchange, all transfers of Shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a recognised clearing house or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a Share until the name of the transferee is entered in the register of members of the Company in respect of that Share.

Subject to the provisions of the Companies Act, if the Board considers it necessary or appropriate, the Company may establish and maintain a branch register or registers of members at such location or locations within or outside the Cayman Islands as the Board thinks fit. The Board may, in its absolute discretion, at any time transfer any Share on the principal register to any branch register or any Share on any branch register to the principal register or any other branch register.

The Board may, in its absolute discretion, decline to register a transfer of any Share (not being a fully paid Share) to a person of whom it does not approve or on which the Company has a lien, or a transfer of any Share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any Share to more than four joint holders. It may also decline to recognise any instrument of transfer if the proposed transfer does not comply with the Articles or any requirements of the Listing Rules.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of Share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules and the relevant section of the Companies Ordinance, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Fully paid Shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(e) Redemption of Shares

Subject to the provisions of the Companies Act, the Listing Rules and any rights conferred on the holders of any Shares or attaching to any class of Shares, the Company may issue Shares that are to be redeemed or are liable to be redeemed at the option of the members or the Company. The redemption of such Shares shall be effected in such manner and upon such other terms as the Company may by special resolution determine before the issue of such Shares.

(f) Power of the Company to Purchase its own Shares

Subject to the Companies Act, or any other law or so far as not prohibited by any law and subject to any rights conferred on the holders of any class of Shares, the Company shall have the power to purchase or otherwise acquire all or any of its own Shares (which includes redeemable Shares), provided that the manner and terms of purchase have first been authorised by ordinary resolution and that any such purchase shall only be made in accordance with the relevant code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong from time to time in force.

(g) Power of any Subsidiary of the Company to own Shares in the Company

There are no provisions in the Articles relating to the ownership of Shares in the Company by a subsidiary.

(h) Calls on Shares and Forfeiture of Shares

Subject to the terms of allotment and issue of any Shares (if any), the Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the Shares held by them (whether in respect of par value or share premium). A member who is the subject of the call shall (subject to receiving at least 14 clear days' notice specifying the time or times for payment) pay to the Company at the time or times so specified the amount called on his Shares. A call may be made payable either in one sum or by instalments, and shall be deemed to have been made at the time when the resolution of the Board authorising such call was passed. The joint holders of a Share shall be severally as well as jointly liable for the payment of all calls and instalments due in respect of such Share.

If a call remains unpaid after it has become due and payable, the member from whom the sum is due shall pay interest on the unpaid amount at such rate as the Board shall determine (together with any expenses incurred by the Company as a result of such non-payment) from the day it became due and payable until it is paid, but the Board may waive payment of such interest or expenses in whole or in part.

If a member fails to pay any call or instalment of a call after it has become due and payable, the Board may, for so long as any part of the call or instalment remains unpaid, give to such member not less than 14 clear days' notice requiring payment of the unpaid amount together with any interest which may have accrued and which may still accrue up to the date of payment (together with any expenses incurred by the Company as a result of such non-payment). The notice shall specify a further day on or before which the payment required by the notice is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the Shares in respect of which the call was made will be liable to be forfeited.

If such notice is not complied with, any Share in respect of which the notice was given may, before the payment required by the notice has been made, be forfeited by a resolution of the Board. Such forfeiture shall include all dividends, other distributions and other monies payable in respect of the forfeited Share and not paid before the forfeiture.

A person whose Shares have been forfeited shall cease to be a member in respect of the forfeited Shares, shall surrender to the Company for cancellation the certificate(s) for the Shares forfeited and shall remain liable to pay to the Company all monies which, as at the date of forfeiture, were payable by him to the Company in respect of the Shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of payment as the Board may determine and any expenses incurred by the Company as a result of such non-payment.

2.2 Directors

(a) Appointment, Retirement and Removal

The Company may by ordinary resolution of the members elect any person to be a Director. The Board may also appoint any person to be a Director at any time, either to fill a casual vacancy or as an additional Director subject to any maximum number fixed by the members in general meeting or the Articles. Any Director so appointed shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The members may by ordinary resolution remove any Director (including a managing or executive Director) before the expiration of his term of office, notwithstanding anything in the Articles or any agreement between the Company and such Director, and may by ordinary resolution elect another person in his stead. Nothing shall be taken as depriving a Director so removed of any compensation or damages payable to such Director in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director.

The office of a Director shall be vacated if:

(i) the Director gives notice in writing to the Company that he resigns from his office as Director;

(ii) the Director is absent, without being represented by proxy or an alternate Director appointed by him, for a continuous period of 12 months without special leave of absence from the Board, and the Board passes a resolution that he has by reason of such absence vacated his office;

(iii) the Director becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(iv) the Director dies or an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;

(v) the Director is prohibited from being or ceases to be a Director by operation of law;

(vi) the Director has been required by the Stock Exchange to cease to be a Director or no longer qualifies to be a Director pursuant to the Listing Rules; or

(vii) the Director is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. If the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors, provided that every Director shall be subject to retirement by rotation at least once every three years. The Directors to retire at each annual general meeting shall be those who have been in office longest since their last re-election or appointment and, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

(b) Power to Allot and Issue Shares and other Securities

Subject to the provisions of the Companies Act, the Memorandum and Articles and, where applicable, the Listing Rules, and without prejudice to any rights or restrictions for the time being attached to any Shares, the Board may allot, issue, grant options over or otherwise dispose of Shares with or without preferred, deferred or other rights or restrictions, whether with regard to dividend, voting, return of capital or otherwise, to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, provided that no Shares shall be issued at a discount to their par value.

The Company may issue rights, options, warrants or convertible securities or securities of a similar nature conferring the right upon the holders thereof to subscribe for, purchase or receive any class of Shares or other securities in the Company on such terms as the Board may from time to time determine.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of Shares, to make, or make available, any such allotment, offer, option or Shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(c) Power to Dispose of the Assets of the Company or any of its Subsidiaries

Subject to the provisions of the Companies Act, the Memorandum and Articles and any directions given by special resolution of the Company, the Board may exercise all powers and do all acts and things which may be exercised or done by the Company to dispose of the assets of the Company or any of its subsidiaries. No alteration to the Memorandum or Articles and no direction given by special resolution of the Company shall invalidate any prior act of the Board which would have been valid if such alteration or direction had not been made or given.

(d) Borrowing Powers

The Board may exercise all the powers of the Company to raise or borrow money, secure the payment of any sum or sums of money for the purposes of the Company, mortgage or charge all or any part of its undertaking, property and uncalled capital of the Company, and, subject to the Companies Act, issue debentures, debenture stock, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(e) Remuneration

A Director shall be entitled to receive such sums as shall from time to time be determined by the Board or the Company in general meetings. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in connection with attendance at meetings of the Board or committees of the Board, or general meetings of the Company or separate meetings of the holders of any class of Shares or debentures of the Company, or otherwise in connection with the business of the Company and the discharge of their duties as Directors, and/or to receive fixed allowances in respect thereof as may be determined by the Board.

The Board or the Company in general meetings may also approve additional remuneration to any Director for any services which in the opinion of the Board or the Company in general meetings go beyond such Director's ordinary routine work as a Director.

(f) Compensation or Payments for Loss of Office

There are no provisions in the Articles relating to compensation or payment for loss of office.

(g) Loans to Directors

There are no provisions in the Articles relating to making of loans to Directors.

(h) Disclosure of Interest in Contracts with the Company or any of its Subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company.

No person shall be disqualified from the office of Director or alternate Director or prevented by such office from contracting with the Company, nor shall any such contract or any other contract or transaction entered into by or on behalf of the Company in which any Director or alternate Director is in any way interested be or be liable to be avoided, nor shall any Director or alternate Director so contracting or being so interested be liable to account to the Company for any profit realised by or arising in connection with any such contract or transaction by reason of such Director or alternate Director holding such office or of the fiduciary relationship established by it, provided that the nature of interest of any Director or alternate Director in any such contract or transaction shall be disclosed by such Director or alternate Director at or prior to the consideration and vote thereon.

A Director shall not vote on (or be counted in the quorum in relation to) any resolution of the Board in respect of any contract or arrangement or other proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted and he shall not be counted in the quorum for such resolution. This prohibition shall not apply to any of the following matters:

(i) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of Shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of (A) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit or (B) any pension fund or retirement, death or disability benefits scheme which relates to the Director, his close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of Shares, debentures or other securities of the Company by virtue only of his/their interest in those Shares, debentures or other securities.

2.3 Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Unless otherwise determined, two Directors shall be a quorum. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.4 Alterations to the Constitutional Documents and the Company's Name

The Memorandum and Articles may only be altered or amended, and the name of the Company may only be changed, by special resolution of the Company.

2.5 Meetings of Members

(a) Special and Ordinary resolutions

A special resolution must be passed by a majority of not less than three-fourths of the voting rights held by such members as, being entitled so to do, vote in person or by proxy or, in the case of any members which is a corporation, by its duly authorised representative(s) or by proxy, at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. A special resolution may also be approved in writing by all the members entitled to vote at a general meeting in one or more instruments each signed by one or more of such members.

An ordinary resolution, in contrast, is a resolution passed by a simple majority of the voting rights held by such members as, being entitled to do so, vote in person or by proxy or, in the case of any member which is a corporation, by its duly authorised representative(s) or by proxy, at a general meeting. An ordinary resolution may also be approved in writing by all the members entitled to vote at a general meeting in one or more instruments each signed by one or more of such members.

The provisions of special resolutions and ordinary resolutions shall apply *mutatis mutandis* to any resolutions passed by the holders of any class of shares.

(b) Voting Rights and Right to Demand a Poll

Subject to any rights, restrictions or privileges as to voting for the time being attached to any class or classes of Shares, at any general meeting: (a) on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every Share and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote.

In the case of joint holders, the vote of the senior holder who tenders a vote, whether in person or by proxy shall be accepted to the exclusion of the votes of the other join holders, and seniority shall be determined by the order in which the names of the holders stand in the register of members of the Company.

No person shall be counted in a quorum or be entitled to vote at any general meeting unless he is registered as a member on the record date for such meeting, nor unless all calls or other monies then payable by him in respect of the relevant Shares have been paid.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

Any corporation or other non-natural person which is a member of the Company may in accordance with its constitutional documents, or in the absence of such provision by resolution of its directors or other governing body or by power of attorney, authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members, and the person so authorised shall be entitled to exercise the same powers as the corporation or other non-natural person could exercise as if it were a natural person member of the Company.

If a recognised clearing house or its nominee(s) is a member of the Company, it may appoint proxies or authorise such person or persons as it thinks fit to act as its representative(s), who enjoy rights equivalent to the rights of other members, at any meeting of the Company (including but not limited to general meetings and creditors meetings) or at any meeting of any class of members of the Company, provided that if more than one person is so authorised, the authorisation shall specify the number and class of Shares in respect of which each such person is so authorised. A person so authorised shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house or its nominee(s) as if such person were a natural person member of the Company, including the right to speak and vote individually on a show of hands or on a poll.

All members of the Company (including a member which is a recognised clearing house (or its nominee(s))) shall have the right to (i) speak at a general meeting and (ii) and vote at a general meeting except where a member is required by the Listing Rules to abstain from voting to approve the matter under consideration. Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(c) Annual General Meetings and Extraordinary General Meetings

The Company must hold a general meeting as its annual general meeting in each financial year. Such meeting shall be specified as such in the notices calling it, and must be held within six months after the end of the Company's financial year. A meeting of the members or any class thereof may be held by telephone, tele-conferencing or other electronic means, provided that all participants are able to communicate contemporaneously with one another, and participation in a meeting in such manner shall constitute presence at such meetings.

The Board may convene an extraordinary general meeting whenever it thinks fit. In addition, one or more members holding, as at the date of deposit of the requisition, in aggregate not less than one-tenth of the voting rights (on a one vote per Share basis) in the share capital of the Company may make a requisition to convene an extraordinary general meeting and/or add resolutions to the agenda of a meeting. Such requisition, which must state the objects and the resolutions to be added to the agenda of the meeting and must be signed by the requisitionists, shall be deposited at the principal place of business of the Company in Hong Kong or, in the event the Company ceases to have such a principal place of business, the registered office of the Company. If the Board does not within 21 days from the date of deposit of such requisition duly proceed to convene a general meeting to be held within the following 21 days, the requisitionists or any of them representing more than one-half of the total voting rights of all the requisitionists may themselves convene a general meeting, but any such meeting so convened shall be held no later than the day falling three months after the expiration of the said 21-day period. A general meeting convened by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by the Board, and all reasonable expenses incurred by the requisitionists shall be reimbursed to the requisitionists by the Company.

(d) Notices of Meetings and Business to be Conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the date, time, place and agenda of the meeting, the particulars of the resolution(s) to be considered at the meeting and the general nature of the business to be considered at the meeting.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address, (to the extent permitted by the Listing Rules and all applicable laws and regulations) by electronic means or (in the case of a notice) by advertisement published in the manner prescribed under the Listing Rules and all applicable laws, rules and regulations, or by sending or otherwise making it available to the relevant person through such other means, whether electronically or otherwise, to the extent permitted by and in accordance with the Listing Rules and all applicable laws, rules and regulations.

Notwithstanding that a meeting of the Company is called by shorter notice than as specified above, if permitted by the Listing Rules, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of an extraordinary general meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights held by such members.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Board in its absolute discretion consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

The Board also has the power to provide in every notice calling a general meeting that in the event of a gale warning, a black rainstorm warning or extreme conditions is/are in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Board may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date.

Where a general meeting is postponed:

(A) the Company shall endeavour to cause a notice of such postponement, which shall set out the reason for the postponement in accordance with the Listing Rules, to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, provided that failure to place or publish such notice shall not affect the automatic postponement of a general meeting due to a gale warning, a black rainstorm warning or extreme conditions being in force on the day of the general meeting;

(B) the Board shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting. Such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and

(C) only the business set out in the notice of the original meeting shall be considered at the reconvened meeting, and notice given for the reconvened meeting does not need to specify the business to be considered at the reconvened meeting, nor shall any accompanying documents be required to be recirculated. Where any new business is to be considered at such reconvened meeting, the Company shall give a fresh notice for such reconvened meeting in accordance with the Articles.

(e) Quorum for Meetings and Separate Class Meetings

No business shall be considered at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to approve the variation of class rights, the necessary quorum shall be two persons holding or representing by proxy not less than one-third of the issued Shares of that class.

(f) Proxies

Any member of the Company (including a member which is a recognised clearing house (or its nominee(s))) entitled to attend and vote at a meeting of the Company is entitled to appoint another person (being a natural person) as his proxy to attend and vote in his place. A member who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is a natural person and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were a natural person member present in person at any general meeting. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing and executed under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation or other non-natural person, either under its seal or under the hand of a duly authorised representative.

The Board shall, in the notice convening any meeting or adjourned meeting, or in an instrument of proxy sent out by the Company, specify the manner by which the instrument appointing a proxy shall be deposited and the place and time (being no later than the time appointed for the commencement of the meeting or adjourned meeting to which the instrument of proxy relates) at which such instrument shall be deposited.

Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form that complies with the Listing Rules as the Board may from time to time approve. Any form issued to a member for appointing a proxy to attend and vote at a general meeting at which any business is to be considered shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise the discretion of the proxy in respect of) each resolution dealing with any such business.

2.6 Accounts and Audit

The Board shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions in accordance with the Companies Act.

The books of accounts of the Company shall be kept at the principal place of business of the Company in Hong Kong or, subject to the provisions of the Companies Act, at such other place or places as the Board thinks fit and shall always be open to inspection by any Director. No member (not being a Director) or other person shall have any right to inspect any account, book or document of the Company except as conferred by the Companies Act or ordered by a court of competent jurisdiction or as authorised by the Board or the Company in general meeting.

The Board shall cause to be prepared and laid before the Company at every annual general meeting a profit and loss account for the period since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up, a Directors' report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditors' report on such accounts and such other reports and accounts as may be required by law and the Listing Rules.

The members shall at each annual general meeting appoint auditor(s) to hold office by ordinary resolution of the members until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the members at the annual general meeting at which they are appointed by ordinary resolution of the members or in any other manner as specified in such ordinary resolution. The members may, at any general meeting convened and held in accordance with the Articles, remove the auditors by ordinary resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in their place for the remainder of the term.

The accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

2.7 Dividends and other Methods of Distribution

Subject to the Companies Act and the Articles, the Company may by ordinary resolution resolve to declare dividends and other distributions on Shares in issue in any currency and authorise payment of the dividends or distributions out of the funds of the Company lawfully available therefor, provided that (i) no dividends shall exceed the amount recommended by the Board, and (ii) no dividends or distributions shall be paid except out of the realised or unrealised profits of the Company, out of the share premium account or as otherwise permitted by law.

The Board may from time to time pay to the members of the Company such interim dividends as appear to the Board to be justified by the financial conditions and the profits of the Company. In addition, the Board may from time to time declare and pay special dividends on Shares of such amounts and on such dates as it thinks fit.

Except as otherwise provided by the rights attached to any Shares, all dividends and other distributions shall be paid according to the amounts paid up on the Shares that a member holds during the period in respect of which the dividends and distributions are paid. No amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share.

The Board may deduct from any dividends or other distributions payable to any member of the Company all sums of money (if any) then payable by him to the Company on account of calls or otherwise. The Board may retain any dividends or distributions payable on or in respect of a Share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

No dividends or other distributions payable by the Company on or in respect of any Share shall carry interest against the Company.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may further resolve:

(a) that such dividend be satisfied in whole or in part in the form of an allotment of Shares credited as fully paid on the basis that the Shares so allotted shall be of the same class as the class already held by the allottee, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(b) that the members entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid in lieu of the whole or such part of the dividend as the Board may think fit on the basis that the Shares so allotted shall be of the same class as the class already held by the allottee.

Upon the recommendation of the Board, the Company may by ordinary resolution resolve in respect of any one particular dividend of the Company determine that notwithstanding the foregoing, a dividend may be satisfied wholly in the form of an allotment of Shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividends, distributions or other monies payable in cash in respect of Shares may be paid by wire transfer to the holder of such Shares or by cheque or warrant sent by post to the registered address of such holder, or in the case of joint holders, to the registered address of the holder who is first named on the register of members of the Company, or to such person and to such address as the holder or joint holders may in writing direct. Any one of two or more joint holders may give effectual receipts for any dividends, distributions or other monies payable in respect of the Shares held by them as joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied in whole or in part by the distribution of specific assets of any kind.

Any dividends or other distributions which remain unclaimed for six years from the date on which such dividends or distributions become payable shall be forfeited and shall revert to the Company.

2.8 Inspection of Corporate Records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed in accordance with the Companies Ordinance) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Companies Ordinance.

2.9 Rights of Minorities in relation to Fraud or Oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under the Cayman Islands laws, as summarised in paragraph 3.6 below.

2.10 Procedures on Liquidation

Subject to the Companies Act, the members of the Company may by special resolution resolve to wind up the Company voluntarily or by the court.

Subject to any rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of Shares:

(a) if the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the Company's paid up capital at the commencement of the winding up, the surplus shall be distributed *pari passu* among such members in proportion to the amount paid up on the Shares held by them at the commencement of the winding up; and

(b) if the assets available for distribution among the members of the Company are insufficient to repay the whole of the Company's paid up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or ought to be paid up, on the Shares held by them at the commencement of the winding up.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the approval of a special resolution and any other approval required by the Companies Act, divide among the members in kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like approval, vest any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator thinks fit, provided that no member shall be compelled to accept any shares or other property upon which there is a liability.

3. COMPANY LAWS OF THE CAYMAN ISLANDS

The Company was incorporated in the Cayman Islands as an exempted company on 27 May 2021 subject to the Companies Act. Certain provisions of the company laws of the Cayman Islands are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the company laws of the Cayman Islands, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

3.1 Company Operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

3.2 Share Capital

Under the Companies Act, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premium on those shares shall be transferred to an account, to be called the share premium account. At the option of a company, these provisions may not apply to premium on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) any manner provided in section 37 of the Companies Act;

(d) writing-off the preliminary expenses of the company; and

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

3.3 Financial Assistance to Purchase Shares of a Company or its Holding Company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

3.4 Purchase of Shares and Warrants by a Company and its Subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of section 37A(1) of the Companies Act. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Act.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under the Cayman Islands laws that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

3.5 Dividends and Distributions

Subject to a solvency test, as prescribed in the Companies Act, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

3.6 Protection of Minorities and Shareholders' Suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss vs. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

3.7 Disposal of Assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

3.8 Accounting and Auditing Requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it; and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2021 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

3.9 Exchange Control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

3.10 Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

3.11 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

3.12 Loans to Directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

3.13 Inspection of Corporate Records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

3.14 Register of Members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2021 Revision) of the Cayman Islands.

3.15 Register of Directors and Officers

Pursuant to the Companies Act, the Company is required to maintain at its registered office a register of directors, alternate directors and officers. The Registrar of Companies shall make available the list of the names of the current directors of the Company (and, where applicable, the current alternate directors of the Company) for inspection by any person upon payment of a fee by such person. A copy of the register of directors and officers must be filed with the Registrar of Companies in the Cayman Islands, and any change must be notified to the Registrar of Companies within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

3.16 Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

3.17 Mergers and consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting members have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

3.18 Mergers and Consolidations involving a Foreign Company

Where the merger or consolidation involves a foreign company, the procedure is similar, save that with respect to the foreign company, the directors of the Cayman Islands exempted company are required to make a declaration to the effect that, having made due enquiry, they are of the opinion that the requirements set out below have been met: (i) that the merger or consolidation is permitted or not prohibited by the constitutional documents of the foreign company and by the laws of the jurisdiction in which the foreign company is incorporated, and that those laws and any requirements of those constitutional documents have been or will be complied with; (ii) that no petition or other similar proceeding has been filed and remains outstanding or order made or resolution adopted to wind up or liquidate the foreign company in any jurisdictions; (iii) that no receiver, trustee, administrator or other similar person has been appointed in any jurisdiction and is acting in respect of the foreign company, its affairs or its property or any part thereof; (iv) that no scheme, order, compromise or other similar arrangement has been entered into or made in any jurisdiction whereby the rights of creditors of the foreign company are and continue to be suspended or restricted.

Where the surviving company is the Cayman Islands exempted company, the directors of the Cayman Islands exempted company are further required to make a declaration to the effect that, having made due enquiry, they are of the opinion that the requirements set out below have been met: (i) that the foreign company is able to pay its debts as they fall due and that the merger or consolidated is bona fide and not intended to defraud unsecured creditors of the foreign company; (ii) that in respect of the transfer of any security interest granted by the foreign company to the surviving or consolidated company (a) consent or approval to the transfer has been obtained, released or waived; (b) the transfer is permitted by and has been approved in accordance with the constitutional documents of the foreign company; and (c) the laws of the jurisdiction of the foreign company with respect to the transfer have been or will be complied with; (iii) that the foreign company will, upon the merger or consolidation becoming effective, cease to be incorporated, registered or exist under the laws of the relevant foreign jurisdiction; and (iv) that there is no other reason why it would be against the public interest to permit the merger or consolidation.

3.19 Reconstructions and Amalgamations

Reconstructions and amalgamations may be approved by (i) 75% in value of the members or class of members or (ii) a majority in number representing 75% in value of the creditors or class of creditors, in each case depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, it can be expected that the court would approve the transaction if it is satisfied that (i) the company is not proposing to act illegally or beyond the scope of our corporate authority and the statutory provisions as to majority vote have been complied with, (ii) the members have been fairly represented at the meeting in question, (iii) the transaction is such as a businessman would reasonable approve and (iv) the transaction is not one that would more properly be sanctioned under some other provisions of the Companies Act or that would amount to a "fraud on the minority".

If the transaction is approved, no dissenting member would have any rights comparable to the appraisal rights (namely the right to receive payment in cash for the judicially determined value of his shares), which may be available to dissenting members of corporations in other jurisdictions.

3.20 Takeovers

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

3.21 Indemnification

The Cayman Islands laws do not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

3.22 Economic Substance

The Cayman Islands enacted the International Tax Co-operation (Economic Substance) Act (2021 Revision) together with the Guidance Notes published by the Cayman Islands Tax Information Authority from time to time. The Company is required to comply with the economic substance requirements from 1 July 2019 and make an annual report in the Cayman Islands as to whether or not it is carrying on any relevant activities and if it is, it must satisfy an economic substance test.

4. GENERAL

Harney Westwood & Riegels, the Company's legal advisor on Cayman Islands laws, has sent to the Company a letter of advice summarising the aspects of the Companies Act set out in section 3 above. This letter, together with copies of the Companies Act, the Memorandum and the Articles, is on display on the websites of the Stock Exchange and the Company as referred to in the paragraph headed "Documents Delivered to the Registrar of Companies and Available on Display" in Appendix VI. Any person wishing to have a detailed summary of the Companies Act or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 30 November 2023 of the selected property interest held by the Group.

JLL®
仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7/F, One Taikoo Place
979 King's Road, Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No.: C-030171

2024

The Board of Directors
Kayou Inc.
Office of Sertus Incorporations
(Cayman) Limited
Sertus Chambers
Governors Square, Suite #5-204
23 Lime Tree Bay Avenue
P.O. Box 2547, Grand Cayman
KY1-1104, Cayman Islands

Dear Sirs,

In accordance with your instructions to value the selected property interest held by Kayou Inc. (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interest as at 30 November 2023 (the "valuation date").

The selected property interest is classified as "non-property activities" and its carrying amount is above 15% of the Group's total assets. Therefore the valuation report of this selected property interest is required to be included in this document.

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We have valued the property interest by comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the market. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

We have attributed no commercial value to the Building No.7 of the property interest, which the title of this building has not yet vested in the Group as at the Latest Practicable Date.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; the RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of title document including Real Estate Title Certificate and have made relevant enquiries. Where possible, we have examined the original document to verify the existing title to the property in the PRC and any material encumbrance that might be attached to the property or any tenancy amendment. We have considered the advice given by the Company's PRC Legal Advisor – Jingtian & Gongcheng, concerning the validity of the property in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties was carried out in November 2023 by Ms. Evelyn Xu and Mr. Henson Zhang. They are a Member of the Royal Institution of Chartered Surveyors or have more than 2 years' experience in the valuation of properties in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

All monetary figures stated in this report are in Renminbi (RMB) in respect of the property.

Our valuation certificate is attached below for your attention.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Senior Director

Notes: Eddie T. W. Yiu is a Chartered Surveyor who has 30 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

VALUATION CERTIFICATE

Selected property interest held by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 November 2023
			RMB
Buildings Nos. 2-7 with one level basement of Shanghai Xinmei Taikoo City Dayue Business Center located at Nos. 626, 650, 680 and 698 Qipu Road and Nos. 1069, 1117 and 1139 Haining Road Jing'an District Shanghai The PRC	The property is located at the southern side of Haining Road and the northern side of Qipu Road. The locality is well served with public transportation. The surrounding environment is an office area served by retail stores and cultural & recreational facilities. The property comprises six 3-storey commercial buildings with one level basement which were completed in 2022. The property has a total gross floor area ("**GFA**") of approximately 20,173.71 sq.m. Details of the total GFA of the property are set out in note 2. The land use rights of the property have been granted for terms expiring on 29 September 2063 for office use and 29 September 2053 for commercial use.	As at the valuation date, the property was vacant.	1,004,000,000 (Refer to note 4)

Notes:

1. Pursuant to 7 Shanghai Commodity Housing Pre-sale Contracts dated 19 March 2022, entered into between Shanghai Xinlan Real Estate Development Co., Ltd (上海新蘭房地產開發有限公司) and Zhejiang Kayou Animation Co., Ltd (浙江卡游動漫有限公司, "Zhejiang Kayou", a wholly-owned subsidiary of the Company), the property is contracted to be purchased by Zhejiang Kayou at a total consideration of RMB1,141,643,110.00. As advised by the Group, all the consideration had been paid off up to the valuation date.

2. Pursuant to 6 Real Estate Title Certificates – Hu (2024) Jing Zi Bu Dong Chan Quan Di Nos. 000675, 000676, 000677, 000680, 000918 and 000919 dated 12 January 2024 issued by Shanghai Natural Resources Property Rights Registration Bureau, the building ownership rights of Buildings No. 2 to No. 6 and the basement of the property with a total gross floor area of approximately 17,867.18 sq.m. are owned by Zhejiang Kayou, and the relevant land use rights have been granted to Zhejiang Kayou the terms expiring on 29 September 2063 for office use and 29 September 2053 for commercial use.

3. According to the information provided by the Group, the details of the GFA of the property are set out as below:

Building	**Usage**	**GFA**
		(sq.m.)
Building 2	Commercial	477.62
Building 3	Commercial	1,376.57
Building 4	Commercial	1,959.87
Building 5	Commercial	3,903.23
Building 6	Commercial	2,076.3
Building 7	Commercial	2,306.53
Basement	Commercial	8,073.59
Total:		**20,173.71**

4. The Group has not yet obtained title certificate of Building No.7 of the property and the legal title of this building has not been vested in the Group as at the Latest Practicable Date, thus we have attributed no commercial value to this building. As advised by the Group, the Real Estate Title Certificate of Building No.7 will be obtained by the Group in the first quarter of 2024. For reference purpose, we are of the opinion that the market value of Building No.7 would be RMB178,000,000 and the aggregate value of the property is RMB1,182,000,000 as at 30 November 2023, assuming that the relevant title certificates have been obtained by the Group and the Group is entitled to freely transfer, lease, mortgage or otherwise dispose of the property.

5. Our valuation has been made on the following basis and analysis:

   In undertaking our valuation of the property, we have identified and analyzed various relevant sales evidences in the locality which have similar characteristics as the property. The aboveground unit price of these comparable properties ranges from RMB75,000 to RMB90,000 per sq.m. Appropriate adjustments and analysis are considered to the differences in location, size, and other characters between the comparable properties and the property to arrive at an assumed unit rate of the property.

6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:

   a. The Group has legally obtained the land use rights and the building ownership rights of portions of the property mentioned in note 2. These portions of property are not subject to any mortgage, seizure or authority restriction.

   b. For the Building No. 7 of the property mentioned in note 4, according to a Shanghai Commodity Housing Pre-sale Contract (contract number: 202200056020) provided by the Company, the contract has been signed appropriately. As confirmed by the Company, the Company is currently processing the registration procedure for the ownership of this building.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

Our Company was incorporated in the Cayman Islands on May 27, 2021 as an exempted company with limited liability. Our registered office address is at Office of Sertus Incorporations (Cayman) Limited, Sertus Chambers, Governors Square, Suite #5-204, 23 Lime Tree Bay Avenue, P.O. Box 2547, Grand Cayman, KY1-1104, Cayman Islands. Accordingly, our Company's corporate structure and Memorandum and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum and Articles of Association is set out in Appendix III to this Document.

We have established our principal place of business in Hong Kong at Suite 1220, Two Pacific Place, 88 Queensway, Hong Kong, and are in the process of the registration with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance. Kayou Hong Kong has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong. The address for service of process is Suite 1220, Two Pacific Place, 88 Queensway, Hong Kong.

As of the date of this Document, our Company's head office was located at Building 3, Lane 268, Taihong Road, Minhang District, Shanghai, China.

2. Changes in Share Capital

On May 27, 2021, our Company was incorporated with an authorized share capital of US$50,000 divided into 500,000,000 shares of a par value of US$0.0001 each. Upon incorporation, one Ordinary Share was issued and allotted to Sertus Nominees (Cayman) Limited, which was transferred to Liqibin Holdings Limited.

On the same day, our Company completed the issuance and allotment of 9,899,999 and 100,000 Ordinary Shares to Liqibin Holdings Limited and Qiyan Holdings Limited, respectively.

On December 15, 2021, our Company issued 1,372,549 and 392,157 Series A Preferred Shares to HongShan Growth and Grand Hematite Limited, respectively, with payment fully settled by January 2022. Pursuant to the written resolutions of our Shareholders passed, 1,764,706 Ordinary Shares were redesignated and reclassified into Series A Preferred Shares.

On January 11, 2024, our Company issued 915,034 Shares, 261,437 Shares and 130,718 Shares to Liqibin Holdings Limited, Lishufang Holdings Limited and DavidLT Holdings Limited at par value, respectively.

On [●], our Company [implemented] the Share Subdivision whereby each existing issued and unissued share capital with par value of US$0.0001 in the authorized share capital of our Company were subdivided into 100 Shares with par value of USD0.000001 each and the authorized share capital of our Company [was] altered to USD50,000 divided into 50,000,000,000 Shares with par value of USD0.000001 each.

For more details, see "– History, Reorganization and Corporate Structure" in this Document. Save as disclosed above, there has been no alteration in the authorized or issued share capital of our Company during the two years immediately preceding the date of this Document.

3. Changes in the Share Capital of our Subsidiaries

A summary of the corporate information and the particulars of our subsidiaries are set out in Note 1 to the Accountants' Report as set out in Appendix I to this Document.

The following subsidiaries of our Company were incorporated within two years immediately preceding the date of this Document:

Guangdong Kayou Industry Co., Ltd. (廣東卡游實業有限公司)

Guangdong Kayou Industry Co., Ltd., a wholly-owned subsidiary of our Company, was established in the PRC on September 30, 2022 with the registered capital of RMB50 million.

Shanghai Huawenxin Culture Communication Co., Ltd. (上海華文新文化傳播有限公司)

Shanghai Huawenxin Culture Communication Co., Ltd., a wholly-owned subsidiary of our Company, was established in the PRC on April 4, 2023 with the registered capital of RMB0.5 million.

Shandong Kayou Trading Co., Ltd. (山東卡游貿易有限公司)

Shandong Kayou Trading Co., Ltd., a wholly-owned subsidiary of our Company, was established in the PRC on May 17, 2023 with the registered capital of RMB3 million.

Hunan Kayou Qinqu Trading Co., Ltd. (湖南卡游親趣貿易有限公司)

Hunan Kayou Qinqu Trading Co., Ltd., a wholly-owned subsidiary of our Company, was established in the PRC on May 15, 2023 with the registered capital of RMB2 million.

Fujian Kayou Trading Co., Ltd. (福建卡游貿易有限公司)

Fujian Kayou Trading Co., Ltd., a wholly-owned subsidiary of our Company, was established in the PRC on June 16, 2022 with the registered capital of RMB10 million.

Shanghai Kayou Enterprise Management Co., Ltd. (上海卡游企業管理有限公司)

Shanghai Kayou Enterprise Management Co., Ltd., a wholly-owned subsidiary of our Company, was established in the PRC on September 19, 2022 with the registered capital of USD15 million.

Shanghai Kayou Industry

Shanghai Kayou Industry, a wholly-owned subsidiary of our Company, was established in the PRC on September 22, 2022 with the registered capital of RMB100 million.

Shanghai Kayou Kaqu Trading Development Co., Ltd. (上海卡游卡趣貿易發展有限公司)

Shanghai Kayou Kaqu Trading Development Co., Ltd., a wholly-owned subsidiary of our Company, was established in the PRC on November 11, 2022 with the registered capital of RMB38 million.

Shanghai Kayou Yiqu Trading Development Co., Ltd. (上海卡游益趣貿易發展有限公司)

Shanghai Kayou Yiqu Trading Development Co., Ltd., a wholly-owned subsidiary of our Company, was established in the PRC on November 11, 2022 with the registered capital of RMB102 million.

Shanghai Kayou Cangqu Trading Development Co., Ltd. (上海卡游藏趣貿易發展有限公司)

Shanghai Kayou Cangqu Trading Development Co., Ltd., a wholly-owned subsidiary of our Company, was established in the PRC on November 11, 2022 with the registered capital of RMB149 million.

Shanghai Kayou Jingqu Trading Development Co., Ltd. (上海卡游競趣貿易發展有限公司)

Shanghai Kayou Jingqu Trading Development Co., Ltd., a wholly-owned subsidiary of our Company, was established in the PRC on November 11, 2022 with the registered capital of RMB295 million.

Shanghai Kayou Shequ Trading Development Co., Ltd. (上海卡游社趣貿易發展有限公司)

Shanghai Kayou Shequ Trading Development Co., Ltd., a wholly-owned subsidiary of our Company, was established in the PRC on November 11, 2022 with the registered capital of RMB154 million.

Shanghai Kayou Chaoqu Commerce and Trading Development Co., Ltd. (上海卡游潮趣商貿發展有限公司)

Shanghai Kayou Chaoqu Commerce and Trading Development Co., Ltd., a wholly-owned subsidiary of our Company, was established in the PRC on November 11, 2022 with the registered capital of RMB170 million.

Shanghai Kayou Qinqu Trading Development Co., Ltd. (上海卡游親趣貿易發展有限公司)

Shanghai Kayou Qinqu Trading Development Co., Ltd., a wholly-owned subsidiary of our Company, was established in the PRC on November 11, 2022 with the registered capital of RMB245 million.

There has been no alteration in the share capital of any of the subsidiaries of our Company within two years immediately preceding the date of this Document.

4. Resolutions of Our Shareholders of Our Company dated [●], 2024

Resolutions were passed in the meeting of our Shareholders on [●], 2024, pursuant to which, among other things:

(1) the Memorandum and Articles of Association were approved and adopted with effect from the [**REDACTED**];

(2) conditional on: (a) the [**REDACTED**] Document; (b) the [**REDACTED**] being duly determined among our Company, the [**REDACTED**]/the [**REDACTED**] (for themselves and on behalf of the [**REDACTED**]); and (c) the obligations of the [**REDACTED**] under the [**REDACTED**] becoming unconditional and not being terminated in accordance with the terms of the [**REDACTED**] or otherwise, in each case on or before the dates as may be specified in the [**REDACTED**]:

(a) each of the Series A Preferred Shares will be converted into one Ordinary Share by re-designation and reclassification;

(b) the [**REDACTED**] (including the [**REDACTED**]) was approved, the proposed allotment and issue of the [**REDACTED**] under the [**REDACTED**] were approved, and the Directors were authorized to determine the [**REDACTED**] for, and to allot and issue, the [**REDACTED**];

(c) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which might require Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, otherwise than by way of the [**REDACTED**], rights issue or pursuant to the exercise of any subscription rights attaching to any warrants which may be allotted and issued by our Company from time to time or, pursuant to the exercise of any options which may be granted under the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association on a specific authority granted by our Shareholders in general meeting, shall not exceed 20% of the total number of the Shares in issue immediately following the completion of the [**REDACTED**], excluding any Shares to be issued pursuant to the exercise of the [**REDACTED**];

(d) a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following the completion of the [**REDACTED**], excluding any Shares to be sold, or issued and allotted pursuant to the exercise of the [**REDACTED**]; and

(e) the Repurchase Mandate was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to purchase Shares referred to in paragraph (d) above (up to 10% of the total number of the Shares in issue immediately following the completion of the [**REDACTED**], excluding any Shares to be sold, or issued and allotted pursuant to the exercise of the [**REDACTED**]).

Each of the general mandates referred to in paragraphs (c), (d), and (e) above will remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;

(ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or

(iii) the time when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

5. Repurchase of Our Own Securities

The following paragraphs include, among others, certain information required by the Stock Exchange to be included in this Document concerning the repurchase of our own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarized below:

(i) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in a general meeting of the company duly convened and held, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholders on [●], 2024, the Repurchase Mandate was given to our Directors authorizing them to exercise all the powers of our Company to repurchase Shares on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following the completion of the [**REDACTED**] (excluding any Shares to be sold, or issued and allotted pursuant to the exercise of the [**REDACTED**]), with such mandate to expire at the earliest of (i) the conclusion of the next annual general meeting of our Company, (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held by any applicable law or the Articles of Association, and (iii) the date when it is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable Laws of Hong Kong and the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. As a matter of Cayman Islands law, any repurchases by the company may be made out of profits or out of the proceeds of a new issue of shares made for the purpose of the repurchase or from sums standing to the credit of our share premium account or out of capital, if so authorized by the articles of association of the company and subject to the Cayman Companies Act.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not make a new issue of securities or announce a proposed new issue of securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities, which were outstanding prior to such repurchase), without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

The Listing Rules also prohibit a listed company from repurchasing its securities on the Stock Exchange if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that any broker appointed by it to effect a repurchase of securities shall disclose to the Stock Exchange such information with respect to the repurchase made on behalf of the company as the Stock Exchange may require.

(iv) Status of Repurchased Shares

The listing of all securities which are repurchased by a listed company (whether on the Stock Exchange or otherwise) shall be automatically cancelled upon repurchase and the certificates of those securities must be cancelled and destroyed. Under the laws of the Cayman Islands, unless, prior to the repurchase the directors of the company resolve to hold the shares repurchased by the company as treasury shares, shares repurchased by the company shall be treated as cancelled and the amount of the company issued share capital shall be diminished by the aggregate nominal or par value of those shares. However, the repurchase of shares will not be taken as reducing the amount of the authorized share capital under Cayman Islands law.

(v) Suspension of Repurchase

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting Requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Core Connected Persons

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them (as defined in the Listing Rules) and a core connected person shall not knowingly sell his/her/its securities to the company on the Stock Exchange.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

(c) Funding of repurchases

Repurchase of the Shares must be funded out of funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands. Our Directors may not repurchase the Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, our Directors may make repurchases with profits of our

Company or out of a new issuance of shares made for the purpose of the repurchase or from sums standing to the credit of our share premium account or, if authorized by the Articles of Association and subject to the Cayman Companies Act, out of capital.

However, our Directors do not propose to exercise the general mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(d) General

The exercise in full of the Repurchase Mandate, on the basis of [**REDACTED**] Shares in issue immediately following the completion of the [**REDACTED**] (assuming that the [**REDACTED**] is not exercised, all Series A Preferred Shares have been converted into the Shares on a one-to-one basis and the Share Subdivision is completed immediately upon the completion of the [**REDACTED**]) could accordingly result in up to approximately [**REDACTED**] Shares being repurchased by our Company during the period prior to the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;

- the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or

- the time when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

None of our Directors or, to the best of their knowledge having made all reasonable inquiries, any of their close associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares that results in the number of Shares held by [**REDACTED**] being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the [**REDACTED**] referred to above. It is believed that a waiver of this provision would not normally be granted other than in exceptional circumstances. Our Directors have no present intention to exercise the Repurchase Mandate to such an extent that, in the circumstances, there is insufficient [**REDACTED**] as prescribed under the Listing Rules.

No core connected person of our Company has notified our Company that they have a present intention to sell Shares to our Company, or have undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this Document and are or may be material:

(1) a supplemental deed to the share purchase agreement entered into on January 23, 2024 among our Company, Kayou BVI, Kayou Hong Kong, Zhejiang Kayou Animation, Zhejiang Kayou Technology, Zhejiang Kayou Culture Communications, Kayou (Shanghai) Culture Communications, Zhejiang Kayou Stationery Co., Ltd., Kayou (Shanghai) Culture Creativity, Mr. Li, Ms. Qi, Liqibin Holdings Limited, Qiyan Holdings Limited, HongShan Growth and Grand Hematite Limited in relation to the revision of certain Shareholders' rights in the share purchase agreement;

(2) a supplemental deed to the shareholders agreement and supplemental agreement entered into on January 23, 2024 among our Company, Kayou BVI, Kayou Hong Kong, Zhejiang Kayou Animation, Zhejiang Kayou Technology, Zhejiang Kayou Culture Communications, Kayou (Shanghai) Culture Communications, Zhejiang Kayou Stationery Co., Ltd., Kayou (Shanghai) Culture Creativity, Mr. Li, Ms. Qi, Liqibin Holdings Limited, Qiyan Holdings Limited, HongShan Growth and Grand Hematite Limited in relation to the revision of certain Shareholders' rights in the shareholders agreement and supplemental agreement; and

(3) [**REDACTED**].

2. Intellectual Property Rights

As of September 30, 2023, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

(a) Trademarks

As of September 30, 2023, we had registered the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Registered owner	Class(es)	Place of registration	Registered number	Registration date	Expiry date
1.	Kayou	Zhejiang Kayou Culture Communications	9	PRC	9440200	December 21, 2012	December 20, 2032
2.	Kayou	Zhejiang Kayou Culture Communications	16	PRC	9440124	May 28, 2012	May 27, 2032
3.	Kayou	Zhejiang Kayou Culture Communications	28	PRC	9440055	June 21, 2012	June 20, 2032
4.	Kayou	Zhejiang Kayou Culture Communications	35	PRC	9444318	May 28, 2012	May 27, 2032
5.	Kayou	Zhejiang Kayou Culture Communications	41	PRC	9444371	May 28, 2012	May 27, 2032
6.	Kayou	Zhejiang Kayou Culture Communications	42	PRC	9440296	July 28, 2012	July 27, 2032
7.	卡游	Zhejiang Kayou Culture Communications	9	PRC	57888847	September 28, 2022	September 27, 2032
8.	卡游	Zhejiang Kayou Culture Communications	16	PRC	9440147	May 28, 2012	May 27, 2032
9.	卡游	Zhejiang Kayou Culture Communications	16	PRC	38690621	March 7, 2020	March 6, 2030
10.	卡游	Zhejiang Kayou Culture Communications	35	PRC	9444424	May 28, 2012	May 27, 2032
11.	卡游	Zhejiang Kayou Culture Communications	42	PRC	9440327	May 28, 2012	May 27, 2032

No.	Trademark	Registered owner	Class(es)	Place of registration	Registered number	Registration date	Expiry date
12.		Zhejiang Kayou Culture Communications	16	PRC	9427258	May 21, 2012	May 20, 2032
13.		Zhejiang Kayou Culture Communications	16	PRC	38701031	February 28, 2020	February 27, 2030
14.		Zhejiang Kayou Culture Communications	28	PRC	40239951	June 28, 2021	June 27, 2031
15.		Zhejiang Kayou Culture Communications	28	PRC	47329522	August 14, 2021	August 13, 2031
16.		Zhejiang Kayou Culture Communications	28	PRC	60858386A	July 28, 2022	July 27, 2032
17.		Zhejiang Kayou Culture Communications	35	PRC	9433068	August 21, 2012	August 20, 2032
18.		Zhejiang Kayou Culture Communications	42	PRC	9432997	May 21, 2012	May 20, 2032
19.	HERO BATTLE	Zhejiang Kayou Culture Communications	16	PRC	49903311	August 28, 2021	August 27, 2031
20.	HERO BATTLE	Zhejiang Kayou Culture Communications	35	PRC	49928436	July 14, 2021	July 13, 2031
21.	HERO BATTLE	Zhejiang Kayou Culture Communications	41	PRC	57279692	January 21, 2022	January 20, 2032
22.	HERO BATTLE	Zhejiang Kayou Culture Communications	42	PRC	49923302	August 14, 2021	August 13, 2031
23.	英雄对决	Zhejiang Kayou Culture Communications	35	PRC	49932095	August 28, 2021	August 27, 2031
24.	英雄对决	Zhejiang Kayou Culture Communications	42	PRC	49921387	April 28, 2021	April 27, 2031

No.	Trademark	Registered owner	Class(es)	Place of registration	Registered number	Registration date	Expiry date
25.		Zhejiang Kayou Culture Communications	16	PRC	49901822A	August 21, 2021	August 20, 2031
26.		Zhejiang Kayou Culture Communications	16	PRC	60840069A	June 7, 2022	June 6, 2032
27.		Zhejiang Kayou Culture Communications	28	PRC	60848687A	June 7, 2022	June 6, 2032
28.		Zhejiang Kayou Culture Communications	35	PRC	49917820	September 7, 2021	September 6, 2031
29.		Zhejiang Kayou Culture Communications	42	PRC	49921403	July 14, 2021	July 13, 2031

As of September 30, 2023, we had applied for the registration of the following trademark which we consider to be or may be material to our business:

No.	Trademark	Applicant	Class(es)	Place of application	Application number	Application date
1.		Zhejiang Kayou Culture Communications	16	Hong Kong	306362154	September 28, 2023
2.		Zhejiang Kayou Culture Communications	28	Hong Kong	306362163	September 28, 2023
3.		Zhejiang Kayou Culture Communications	35	Hong Kong	306362172	September 28, 2023
4.		Zhejiang Kayou Culture Communications	41	Hong Kong	306362181	September 28, 2023
5.		Zhejiang Kayou Culture Communications	42	Hong Kong	306362190	September 28, 2023

(b) Patents

As of September 30, 2023, we had registered the following patents which we consider to be or may be material to our business:

No.	Patent name	Type	Patentee	Place of registration	Patent number	Grant date	Expiry date
1.	A tape sealing device for carton packaging operations (一種包裝紙箱打包作業膠帶封箱裝置)	Invention patent	Zhejiang Kayou Animation	PRC	2019108917685	April 20, 2021	September 19, 2039
2.	A device for removing the beginning and end of paper tape on a printing press (一種印刷機上紙帶首尾的剔除裝置)	Invention patent	Zhejiang Kayou Technology	PRC	2019111250323	May 11, 2021	November 17, 2039
3.	A type of puzzle game box (一種益智遊戲盒)	Utility model	Kayou (Shanghai) Culture Communications	PRC	2018216508116	May 24, 2019	October 10, 2028
4.	A card display packaging box (一種卡片展示包裝盒)	Utility model	Zhejiang Kayou Culture Communications	PRC	2019210374108	March 31, 2020	July 3, 2029
5.	A card display packaging box (一種卡片展示包裝盒)	Utility model	Zhejiang Kayou Culture Communications	PRC	2019210296876	March 31, 2020	July 3, 2029
6.	An automatic card vending machine for card-type toys (一種用於卡片式玩具的自動售卡機)	Utility model	Zhejiang Kayou Culture Communications	PRC	2019215274604	March 24, 2020	September 11, 2029
7.	A display board with magnetic light and its lamp (一種具有磁吸燈的展示牌及其燈具)	Utility model	Shenzhen Kayou Technology	PRC	2021222085267	March 3, 2023	September 12, 2031
8.	A card box (一種卡牌盒)	Utility model	Shenzhen Kayou Technology	PRC	2021227030010	May 31, 2022	November 6, 2031
9.	A portable mirror (一種便攜式鏡子)	Utility model	Shenzhen Kayou Technology	PRC	2022202307813	March 28, 2023	January 27, 2032

No.	Patent name	Type	Patentee	Place of registration	Patent number	Grant date	Expiry date
10.	A binder with a strong binding structure (一種裝訂結構牢固的活頁夾)	Utility model	Zhejiang Kayou Animation	PRC	2022219806382	February 3, 2023	July 28, 2032
11.	A labor-saving binder (一種省力活頁夾)	Utility model	Zhejiang Kayou Animation	PRC	2022227391973	March 24, 2023	October 17, 2032
12.	A three-dimensional grating card manufacturing device (一種3D立體光柵卡牌製造裝置)	Utility model	Zhejiang Kayou Technology	PRC	2020214023194	February 26, 2021	July 15, 2030
13.	Card issuing device (發卡裝置)	Utility model	Zhejiang Kayou Technology	PRC	2020213987065	March 9, 2021	July 15, 2030
14.	A device for removing circular cartoons (一種圓形卡通片的清廢裝置)	Utility model	Zhejiang Kayou Technology	PRC	2020213237834	March 23, 2021	July 7, 2030
15.	A device for cleaning square cartoons (一種方形卡通片的清廢裝置)	Utility model	Zhejiang Kayou Technology	PRC	2020213237919	March 23, 2021	July 7, 2030
16.	An anti-card-drop device (防掉卡裝置)	Utility model	Zhejiang Kayou Technology	PRC	2020213684096	March 26, 2021	July 12, 2030
17.	A card packaging inclined box (一種卡牌包裝斜盒)	Utility model	Zhejiang Kayou Technology	PRC	2020213673867	March 30, 2021	July 12, 2030
18.	A product package number detection device (產品包數檢測裝置)	Utility model	Zhejiang Kayou Technology	PRC	2020213684310	March 30, 2021	July 12, 2030
19.	A multi-card detection device (多卡檢測裝置)	Utility model	Zhejiang Kayou Technology	PRC	202021398707X	March 30, 2021	July 15, 2030
20.	A card packaging color box (一種卡牌包裝彩盒)	Utility model	Zhejiang Kayou Technology	PRC	2020213673871	April 6, 2021	July 12, 2030
21.	A card product packaging color box (一種卡牌產品包裝彩盒)	Utility model	Zhejiang Kayou Technology	PRC	2020212479588	April 6, 2021	June 30, 2030
22.	A card receiving bracket (接卡擋片)	Utility model	Zhejiang Kayou Technology	PRC	2020213684081	April 16, 2021	July 12, 2030

No.	Patent name	Type	Patentee	Place of registration	Patent number	Grant date	Expiry date
23.	A platinum embossed positioning special edition paper card manufacturing device (鉑金浮雕定位專版紙張卡牌製造裝置)	Utility model	Zhejiang Kayou Technology	PRC	202021403174X	April 13, 2021	July 15, 2030
24.	A card product packaging box (一種卡牌產品包裝盒)	Utility model	Zhejiang Kayou Technology	PRC	2020212479253	April 16, 2021	June 30, 2030
25.	A folder-gluing machine equipped with paper feeding components (一種糊盒機加裝送紙部件)	Utility model	Zhejiang Kayou Technology	PRC	2020212517753	May 28, 2021	June 30, 2030
26.	A paper preloading device for a paper laminating machine (一種裱紙機預裝紙裝置)	Utility model	Zhejiang Kayou Technology	PRC	2020212518027	May 28, 2021	June 30, 2030
27.	An aluminum film bag automatic exhaust device (鋁膜袋自動排氣裝置)	Utility model	Zhejiang Kayou Technology	PRC	2020213684221	May 28, 2021	July 12, 2030
28.	Loose leaves used for animation card collection album plastic folder (用於動漫卡牌收藏冊塑料夾活頁)	Utility model	Zhejiang Kayou Technology	PRC	2020213684236	May 28, 2021	July 12, 2030
29.	A fully automatic sequence adjustable card issuance system device (全自動順序可調發卡系統裝置)	Utility model	Zhejiang Kayou Animation	PRC	2020224483211	June 1, 2021	October 28, 2030
30.	A multi-station continuous card issuance device (多工位元連續發卡裝置)	Utility model	Zhejiang Kayou Animation	PRC	2020224429217	June 8, 2021	October 28, 2030

No.	Patent name	Type	Patentee	Place of registration	Patent number	Grant date	Expiry date
31.	A flip-top card box structure (一種翻蓋卡盒結構)	Utility model	Zhejiang Kayou Animation	PRC	2020219246019	June 29, 2021	September 6, 2030
32.	A book-shaped card box structure (一種書型卡盒結構)	Utility model	Zhejiang Kayou Animation	PRC	2020219245853	July 2, 2021	September 6, 2030
33.	A conjoined lined card box structure that replaces the blister lining (一種代替吸塑內襯的連體內襯卡盒結構)	Utility model	Zhejiang Kayou Animation	PRC	2020219237255	July 9, 2021	September 6, 2030
34.	A self-proclaimed heavy pillow type sorting table (自稱重枕式分檢台)	Utility model	Zhejiang Kayou Animation	PRC	2020224483090	July 27, 2021	October 28, 2030
35.	A fully automatic rapid sealing device (一種全自動快速封箱裝置)	Utility model	Zhejiang Kayou Animation	PRC	2020225208442	July 27, 2021	November 3, 2030
36.	A small packaging combination automatic packing device (一種小包裝組合自動裝箱裝置)	Utility model	Zhejiang Kayou Animation	PRC	2020225327687	July 27, 2021	November 4, 2030
37.	An automatic carton unfolding device (一種紙箱自動展開裝置)	Utility model	Zhejiang Kayou Animation	PRC	2020225367523	July 27, 2021	November 4, 2030
38.	A paper turner safety protection device (翻紙機安全防護裝置)	Utility model	Zhejiang Kayou Technology	PRC	2021215920825	February 1, 2022	July 13, 2031
39.	A packaging structure (一種包裝結構)	Utility model	Zhejiang Kayou Technology	PRC	2022213856299	September 2, 2022	June 5, 2032
40.	A card product packaging box (一種卡牌產品包裝盒)	Utility model	Zhejiang Kayou Technology	PRC	2022213860398	September 2, 2022	June 5, 2032
41.	Disk removal device (拆盤裝置)	Utility model	Zhejiang Kayou Technology	PRC	2022214069619	October 25, 2022	June 6, 2032

No.	Patent name	Type	Patentee	Place of registration	Patent number	Grant date	Expiry date
42.	A card separator for producing PVC cards (一種生產PVC卡片用的卡片分離機)	Utility model	Zhejiang Kayou Technology	PRC	2022218921896	November 1, 2022	July 19, 2032
43.	A centralized automatic water supply varnish system for offset printing presses (一種膠印機集中自動供水性光油系統)	Utility model	Zhejiang Kayou Technology	PRC	2022208146425	November 11, 2022	April 10, 2032
44.	A multifunctional display rack (多功能展架)	Utility model	Zhejiang Kayou Animation	PRC	2022212242590	November 15, 2022	May 18, 2032
45.	A multifunctional card mat (多功能卡牌墊)	Utility model	Zhejiang Kayou Animation	PRC	2022212242919	November 15, 2022	May 18, 2032
46.	A commemorative coin collection book that is easy to carry and display (一種方便攜帶和展示的紀念幣收藏冊)	Utility model	Zhejiang Kayou Animation	PRC	2022219156543	November 25, 2022	July 20, 2032
47.	A collection book for anime cards (一種用於動漫卡牌的收藏冊)	Utility model	Zhejiang Kayou Technology	PRC	2022223114986	November 25, 2022	August 29, 2032
48.	A security cover for card processing machines (理牌機安全防護罩)	Utility model	Zhejiang Kayou Technology	PRC	2022204911085	January 31, 2023	March 8, 2032
49.	A gift box with card display and collection functions (一種帶卡牌展示和收藏功能的禮盒)	Utility model	Zhejiang Kayou Animation	PRC	2022219389187	January 31, 2023	July 25, 2032
50.	A carton that uses lid pressure lines to greatly increase the display area (一種利用盒蓋壓線大幅增加展示面積的紙盒)	Utility model	Zhejiang Kayou Animation	PRC	202221938983X	January 31, 2023	July 25, 2032

No.	Patent name	Type	Patentee	Place of registration	Patent number	Grant date	Expiry date
51.	A card storage gift box that uses 'sky' and 'earth' covers to splice together (一種利用天地蓋拼接的卡牌收納禮盒)	Utility model	Zhejiang Kayou Technology	PRC	2022223201081	February 3, 2023	August 31, 2032
52.	An improved device for paper-feeding and positioning steel balls in slitting machines (一種分切機走紙定位鋼球改進裝置)	Utility model	Zhejiang Kayou Technology	PRC	2022212789032	February 14, 2023	May 25, 2032
53.	An elevator shaft automatic drainage device (電梯井自動排水裝置)	Utility model	Zhejiang Kayou Technology	PRC	2022224088758	February 14, 2023	September 12, 2032
54.	A paper cutter waste removal device (一種切紙機清廢裝置)	Utility model	Zhejiang Kayou Technology	PRC	2022227042262	February 14, 2023	October 13, 2032
55.	A type of card punching knife (一種卡牌沖切刀)	Utility model	Zhejiang Kayou Technology	PRC	2023202367359	May 2, 2023	February 16, 2033
56.	Display box (展示盒)	Utility model	Zhejiang Kayou Animation	PRC	2022227100639	May 2, 2023	October 13, 2032
57.	A carton that can be machine-glued and automatically formed (一種能上機糊盒自動成型的紙盒)	Utility model	Zhejiang Kayou Animation	PRC	2023202274528	May 5, 2023	February 15, 2033
58.	A game card packaging box (一種遊戲卡牌包裝盒)	Utility model	Zhejiang Kayou Technology	PRC	2023202123405	June 2, 2023	February 13, 2033
59.	A badge bag dispensing device (一種發套袋徽章設備)	Utility model	Zhejiang Kayou Technology	PRC	2023204013912	July 14, 2023	February 27, 2033
60.	A sealing and labeling mechanism based on a labeling machine (一種基於貼標機的封口標刷標機構)	Utility model	Zhejiang Kayou Technology	PRC	2023203377108	July 14, 2023	February 21, 2033

No.	Patent name	Type	Patentee	Place of registration	Patent number	Grant date	Expiry date
61.	A card issuing machine (一種發卡機)	Utility model	Zhejiang Kayou Technology	PRC	202320403732X	August 1, 2023	February 27, 2033
62.	A card issuing structure of a card issuing machine (一種發卡機的發卡結構)	Utility model	Zhejiang Kayou Technology	PRC	2023203893421	August 1, 2023	February 27, 2033
63.	A card storage structure of a card issuing machine (一種發卡機的儲卡結構)	Utility model	Zhejiang Kayou Technology	PRC	2023204012854	August 1, 2023	February 27, 2033
64.	A blind box structure for stationery pens (一種文具筆的盲盒結構)	Utility model	Zhejiang Kayou Technology	PRC	2023202274509	August 11, 2023	February 15, 2033
65.	A card packaging box that is convenient for displaying cards (一種便於展示卡牌的卡牌包裝盒)	Utility model	Zhejiang Kayou Animation	PRC	202320569215X	August 22, 2023	March 21, 2033
66.	A folio packaging box for cards (一種卡牌的對開包裝盒)	Utility model	Zhejiang Kayou Animation	PRC	202320574485X	August 22, 2023	March 21, 2033
67.	A new type of pulling device for card sorting machines (一種新型理牌機拉規裝置)	Utility model	Zhejiang Kayou Technology	PRC	2023202894427	September 22, 2023	February 22, 2033
68.	A display board (展示牌)	Design patent	Shenzhen Kayou Technology	PRC	2021304972592	March 25, 2022	August 2, 2036
69.	A card box (卡牌盒)	Design patent	Shenzhen Kayou Technology	PRC	2021306991865	March 25, 2022	October 25, 2036
70.	A gel pen (KA1001-A) (中性筆(KA1001-A))	Design patent	Zhejiang Kayou Animation	PRC	202130760133X	April 1, 2022	November 18, 2031
71.	A gel pen (KA1101) (中性筆(KA1101))	Design patent	Zhejiang Kayou Animation	PRC	2022302516689	August 19, 2022	April 8, 2032
72.	A collection bag (removable stickers) (收集袋(可撕可樂貼貼紙))	Design patent	Zhejiang Kayou Animation	PRC	2022304677967	January 3, 2023	July 20, 2037

No.	Patent name	Type	Patentee	Place of registration	Patent number	Grant date	Expiry date
73.	A gel pen with three-section pen clip presses (筆夾三節按動中性筆)	Design patent	Zhejiang Kayou Animation	PRC	2022306914505	March 3, 2023	October 18, 2032
74.	A gel pen (one click without pen clip) (中性筆(無筆夾一節按動))	Design patent	Zhejiang Kayou Animation	PRC	2022306909507	March 31, 2023	October 18, 2032
75.	A gel pen (one-section pen clip press) (中性筆(筆夾一節按動))	Design patent	Zhejiang Kayou Animation	PRC	2022307264275	April 7, 2023	October 31, 2032
76.	A gel pen (three-section presses without pen clip) (中性筆(無筆夾三節按動))	Design patent	Zhejiang Kayou Animation	PRC	2022307270187	April 7, 2023	October 31, 2032
77.	A card vending machine (卡片售賣_機)	Design patent	Zhejiang Kayou Culture Communications	PRC	2019303815135	December 31, 2019	July 16, 2029
78.	Packaging box (card) (包裝盒(卡牌))	Design patent	Zhejiang Kayou Animation	PRC	2020300294162	June 19, 2020	January 15, 2030

3. Domain names

As of September 30, 2023, we owned the following domain names which we consider to be or may be material to our business:

No.	Domain name	Current registered owner	Registration date	Expiry date
1.	https://kayou110.com	Kayou (Shanghai) Culture Communications	March 2, 2011	March 2, 2025

Save as disclosed above, as of September 30, 2023, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

Save as disclosed below, immediately following completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised, all Series A Preferred Shares have been converted into the Shares on a one-to-one basis and the Share Subdivision is completed immediately upon the completion of the [**REDACTED**]), so far as our Directors are aware, none of the Directors or chief executive of our Company has any interests or short positions in the Shares, underlying shares or debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to our Company and the Stock Exchange once the Shares are listed thereon.

(i) Interest in Shares of our Company

Name of director	Nature of interest [(1)]	Number and class of securities	Approximate percentage of shareholding interest in our Company immediately after the [REDACTED]
Mr. Li[(2)]	Interest in controlled corporation; interest of spouse	1,091,503,400	[**REDACTED**]%
Ms. Qi[(2)]	Interest in controlled corporation; interest of spouse	1,091,503,400	[**REDACTED**]%

Notes:

(1) All interests stated are long positions.

(2) Mr. Li and Ms. Qi are spouses. Mr. Li, through his wholly-owned entity, Liqibin Holdings Limited, is interested in 1,071,895,500 Shares. Ms. Qi, through her wholly-owned entity, Qiyan Holdings Limited, is interested in 19,607,900 Shares. As such, by virtue of the SFO, both Mr. Li and Ms. Qi are deemed to be interested in 1,091,503,400 Shares owned by Liqibin Holdings Limited and Qiyan Holdings Limited.

2. Substantial Shareholders

For information on the persons who will, immediately following the completion of the [**REDACTED**] (assuming that the [**REDACTED**] is not exercised and all Preferred Shares have been converted into the Shares on a one-to-one basis immediately upon the completion of the [**REDACTED**]), have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, please refer to the section headed "Substantial Shareholders" in this Document.

Save as set out above, so far as is known to any Director or chief executive of our Company, no other person (other than a Director or chief executive of our Company) will, immediately following completion of the [**REDACTED**], have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

3. Directors' Service Contracts and Appointment Letters

Executive Directors

Each of our executive Directors [has entered into] a service contract with our Company. Pursuant to this agreement, they agreed to act as executive Directors for an initial term of three years with effect from the date the appointment is approved by the Board or until the third annual general meeting of our Company after the [**REDACTED**] (whichever is earlier). Either party has the right to give not less than three months' written notice to terminate the agreement. Details of our Company's remuneration policy are set out in the section headed "Directors and Senior Management – Remuneration of Our Directors and Senior Management."

Non-executive Directors

Each of our non-executive Directors [has entered into] an appointment letter with our Company. Their appointment as a Director shall continue for three years after or until the third annual general meeting of our Company after the [**REDACTED**], whichever is earlier, (subject to retirement as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing. Under the appointment letter, the non-executive Directors are not entitled to receive annual salaries in their capacity as non-executive Directors.

Independent Non-executive Directors

Each of our independent non-executive Directors [has entered into] an appointment letter with our Company. The initial term of their appointment shall be three years from the date of this Document or until the third annual general meeting of our Company after the [**REDACTED**], whichever is earlier, (subject to retirement as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing.

4. Directors' remuneration

The remuneration of our Directors is paid in the form of salaries and allowances, performance-related bonuses, pension scheme contributions and social welfare, and other benefits in kind. The aggregate amount of remuneration (including salaries and allowance, performance-related bonuses, pension scheme contributions and social welfare, and other benefits in kind) of our Directors for the years ended December 31, 2021 and 2022 and nine months ended September 30, 2023 was RMB4.9 million, RMB6.5 million and RMB4.8 million, respectively.

Under the arrangement currently in force, the total remuneration (including salaries and allowances, performance-related bonuses, pension scheme contributions and social welfare, and other benefits in kind) payable to our Directors for the year ending December 31, 2024 is estimated to be RMB7,515,500 (without taking into account the Shares issued pursuant to the Pre-[**REDACTED**] Equity Incentive Plan) and 91,503,400 Shares (representing the Shares issued pursuant to the Pre-[**REDACTED**] Equity Incentive Plan and after the Share Subdivision) awarded to a Director. For details, see "D. Share Incentive Scheme" in this section.

None of our Directors has or is proposed to have a service contract with our Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

Please see the section headed "Directors and Senior Management – Remuneration of Our Directors and Senior Management" in this Document for details of the remuneration of our Directors.

5. Disclaimers

Save as disclosed in this Document:

(a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of the Group;

(b) none of the Directors or the experts named in the section headed "– E. Other Information – 8. Qualifications and Consents of Experts" below has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this Document, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of our Company within the two years ended on the date of this Document; and

(d) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this Document which is significant in relation to the business of the Group taken as a whole.

D. SHARE INCENTIVE SCHEME

1. Pre-[REDACTED] Equity Incentive Plan

The following is a summary of the principal terms of our Pre-[**REDACTED**] Equity Incentive Plan adopted on January 11, 2024 (the "**Plan**"). The Plan is not subject to the provisions of Chapter 17 of the Listing Rules, as it does not involve the grant of awards under the Plan (the "**Awards**", each an "**Award**") by our Company after the [**REDACTED**].

(a) Purpose

The purpose of the Plan is to aid our Company and its affiliates in recruiting and retaining key employees, directors, consultants or service providers and to motivate such employees, directors, consultants or service providers to exert their best efforts on behalf of our Company and its affiliates by providing incentives through the granting of Awards. Our Company expects that it will benefit from the added interest which such key employees, directors or service providers will have in the welfare of our Company as a result of their proprietary interest in our Company's success.

(b) The Number of Shares under the Plan

A total of 1,307,189 Shares (or 130,718,900 Shares after the completion of the Share Subdivision) are reserved for the purpose of the Plan, representing 10% of the share capital in issue of our Company immediately prior to the completion of the [**REDACTED**] and approximately [**REDACTED**]% of the share capital in issue of our Company immediately following the completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised and all Preferred Shares have been converted into the Shares on a one-to-one basis immediately upon the completion of the [**REDACTED**]). As of the Latest Practicable Date, all of the 1,307,189 Shares under the Plan were granted.

(c) Administration

The Plan shall be administered by a committee (the "**Committee**"), which shall consist of at least two persons appointed by the Board, or an administrator appointed by the Board (the "**Administrator**"). In the event that an Administrator is appointed in lieu of a Committee, the Administrator shall exercise all rights and power granted to the Committee under this Plan.

(d) Granting of Awards

Option(s) or restricted share unit(s) is/are granted under the Plan as an Award. The Committee may, from time to time, select for participants (the "**Participants**", each a "**Participant**") those to whom an Award shall be granted and shall determine the nature and amount of each Award, which shall not be inconsistent with the requirements of the Plan.

Each Award shall be evidenced by an award agreement (the "**Award Agreement**") between our Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Committee.

(e) Terms and Conditions of Options

The Committee is authorized to grant options to Participants pursuant to the Plan and shall determine the exercise period and terms and conditions of exercise for the options. The exercise price per Share subject to an option shall be determined pursuant to the Plan and set forth in the Award Agreement. Except as otherwise provided in the Plan or in an Award Agreement, an option may be exercised for all, or from time to time any part, of the Shares for which it is then exercisable. The right to exercise an option granted under the Plan shall not exceed ten years from the date of granting the Award.

The Committee may determine vesting requirements for the options, which may include, but not limited to, criteria based on the Participant's duration of employment, the result of Participant's performance assessment or any other criteria selected by the Committee. At any time after grant of an option, the Committee may by its sole discretion and subject to whatever terms and conditions it selects, accelerate the vesting period of the options.

Depending on the Award Agreement, options may, by a written notice from the Directors, be subject to clawback or a longer vesting period prior to its being exercised should the following events occur: (i) a substantial misstatement requiring a restatement in the company's audited financial statements; (ii) fraud or persistent or serious misconduct from the Participant, regardless of the presence of any accounting restatement or significant error in determining performance metrics or criteria; and (iii) implied significantly inaccurate calculation of performance targets which are linked to the grant or exercise of the option. Any option clawed back will be considered as cancelled.

Options having not been exercised shall be cancelled upon the date of the termination of employment of the Participant due to:

(1) Participant's engagement in misconduct which is materially injurious to our Company or its affiliates;

(2) Participant's continued failure to substantially perform his duties to the Group;

(3) Participant's repeated dishonesty in the performance of his duties to the Group;

(4) Participant's commission of an act or acts constituting any (i) fraud against, or misappropriation or embezzlement from our Company or any of its affiliates, (ii) crime involving moral turpitude, or (iii) offense that could result in a jail sentence of at least 30 days or (iv) Participant's material breach of any confidentiality or non-competition covenant entered into between the Participant and the Group; or

(5) Participant's application for resignation from employment (each a "**Cause**").

The Board has the sole discretion to determine that the reasons to the termination of employment of the Participant does not constitute a Cause. Upon such termination without Cause, any unvested options are immediately cancelled without any consideration. If the termination occurs before the [**REDACTED**], the Committee has the right to cancel any vested but unexercised options and may pay the Participant no more than the fair market value of the Shares subject to those options less the total exercise price of the options, unless otherwise agreed. If the termination occurs after the [**REDACTED**], the vested but unexercised options can be exercised within six months after termination, after which they will be forfeited and cancelled without consideration. Furthermore, if termination occurs before the [**REDACTED**], our Company may repurchase any options that have been exercised, with the repurchase price not exceeding the fair market value of the Shares held by the participant unless otherwise agreed.

(f) Terms and Conditions of Restricted Share Units

The Committee is authorized to grant restricted share units to Participants, and shall determine the amount of, and the terms and conditions, including the restrictions applicable to each award of restricted share units, which shall be consistent with the Plan, and may impose such conditions on the issuance of such restricted share unit as it deems appropriate. The Committee shall establish the purchase price, if any, and form of payment for restricted share units, with the purchase price no less than the par value of the Shares to be purchased, unless otherwise permitted by applicable laws. The Committee shall further provide vesting requirements of all restricted share units in the terms of each individual Award Agreement.

Vested restricted share unit shall be entitled to get proceeds from and in related with such Shares. Nevertheless, vested restricted share units shall only carry right to vote upon and after the [**REDACTED**], and may not be transferred, assigned, pledged, or in any other way alienated until the [**REDACTED**]. An unvested restricted share unit shall carry no right to vote on any matters presented to the Shareholders for their vote or approval.

Upon the occurrence of termination of employment of the Participant with or without any Cause, any unvested restricted share unit shall be cancelled, and our Company or any designated person by the Committee shall have the right to purchase, and the Participant shall be obligated to sell the vested Shares at not more than the purchase price.

(g) Adjustments

In the event of any distribution, share split, combination or exchange of Shares, arrangement or consolidation, reorganization of our Company, including our Company becoming a subsidiary in a transaction not involving a change in control, spin-off, recapitalization or other distribution (other than normal cash dividends) of Company assets to its Shareholders, or any other change affecting the Shares or the share price of a Share, the Committee shall make such proportionate and equitable adjustments, if any, to reflect such change. The form and manner of any such adjustments shall be determined by the Committee in its sole discretion. The Committee may but shall not be obligated to determine adjustments in the event of change in control.

(h) Non-transferability of Awards

Unless expressly permitted by the Committee or set forth in an Award Agreement or otherwise in writing, an Award shall not be transferable or assignable by the applicable Participant, provided however, no such permitted transfer to heirs or legatees of the Participant shall be effective to bind our Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof.

(i) Shares issued under the Plan

As of the Latest Practicable Date, the aggregate number of 1,307,189 Shares (or 130,718,900 Shares after the completion of the Share Subdivision) were issued to relevant Participants.

On January 11, 2024, 915,034 Shares (or 91,503,400 Shares after the completion of the Share Subdivision) were issued to Liqibin Holdings Limited at the price of US$0.0001 per Share in connection with the Awards to Mr. Li under the Plan. Such Shares are subject to transfer restriction which will be lifted on the earlier of (i) the first anniversary of the [**REDACTED**], and (ii) the second anniversary of January 11, 2024. Mr. Li is our founder, chairman of the Board, executive Director and chief executive officer. See "Directors and Senior Management – Executive Directors" for background of Mr. Li.

On January 11, 2024, 261,437 Shares (or 26,143,700 Shares after the completion of the Share Subdivision) were issued at the price of US$0.0001 per Share to Lishufang Holdings Limited, which is wholly owned by Ms. LI Shufang (李淑芳), in recognition of the consultancy services provided by her in respect of establishment and improvement of supply chain of our Group. Such Shares are subject to transfer restriction which will be lifted on the earlier of (i) the first anniversary of the [**REDACTED**], and (ii) the second anniversary of January 11, 2024. She is the sister of Mr. Li.

On January 11, 2024, 130,718 Shares were issued to DavidLT Holdings Limited, which is wholly owned by Mr. LUO Ninglin (羅寧林), in recognition of the consultancy services provided by him in respect of digital operation and digital sales channels of our Group. Such Shares are subject to transfer restriction which will be lifted on the earlier of (i) the first anniversary of the [**REDACTED**], and (ii) the second anniversary of January 11, 2024. He is an Independent Third Party.

E. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

As of the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against our Group, that would have a material adverse effect on our business, finance condition or results of operations.

3. Joint Sponsors

Each of Morgan Stanley Asia Limited, China International Capital Corporation Hong Kong Securities Limited, and J.P. Morgan Securities (Far East) Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The Joint Sponsors will receive an aggregate fee of US$1,500,000 for acting as the sponsors for the [**REDACTED**].

[**REDACTED**]

4. Preliminary Expenses

Our Company did not incur any material preliminary expenses.

5. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since September 30, 2023 (being the date to which the latest consolidated financial statements of our Group were prepared).

6. Promoters

Our Company has no promoter for the purpose of the Listing Rules. No cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [**REDACTED**] and the related transactions described in this Document within the two years immediately preceding the date of this Document.

7. Taxation of Holders of Shares

Hong Kong

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

Cayman Islands

Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfer of Shares.

Consultation with professional advisors

Intending holders of the Shares are recommended to consult their professional advisors if they are in doubt as to the taxation implications of holding or disposing of or dealing in the Shares. It is emphasized that none of our Company, our Directors or the other parties involved in the [**REDACTED**] can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

8. Qualifications and Consents of Experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this Document:

Name	**Qualification**
Morgan Stanley Asia Limited	A licensed corporation under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on future contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
China International Capital Corporation Hong Kong Securities Limited	A licensed corporation under the SFO for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
J.P. Morgan Securities (Far East) Limited	A licensed corporation under the SFO for type 1 (Dealing in securities), type 4 (Advising on securities) and type 6 (Advising on corporate finance) of the regulated activities as defined under the SFO
Ernst & Young	Certified Public Accountants under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) and Registered Public Interest Entity Auditor under the Accounting and Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
Jingtian & Gongcheng	Legal advisors as to PRC law to our Company
Harney Westwood & Riegels	Legal advisors as to Cayman Islands laws to our Company
China Insights Industry Consultancy Limited	Industry consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property valuer

Each of the experts named above has given and has not withdrawn its consent to the issue of this Document with the inclusion of its report, letter, and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

9. Binding Effect

This Document shall have the effect, if an application is made pursuant to this Document, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

10. Bilingual Document

The English language and Chinese language versions of this Document are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In the event of any discrepancies between the English language version and the Chinese language version of this Document, the English language version shall prevail.

11. Miscellaneous

(a) Save as disclosed in this Document, within the two years immediately preceding the date of this Document:

   (i) neither we nor any of our major subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;

   (ii) no share or loan capital of our Company or any of our major subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

   (iii) no commission, discounts, brokerage or other special terms have been granted in connection with the issuance or sale of any shares or loan capital of any major subsidiary and operating entities; and

   (iv) no commission has been paid or payable (except commission to sub-[**REDACTED**]) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any of our major subsidiaries and operating entities.

(b) Save as disclosed in this Document:

(i) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;

(ii) there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this Document;

(iii) the principal register of members of our Company will be maintained in the Cayman Islands by [**REDACTED**] and a branch register of members of our Company will be maintained in Hong Kong by the [**REDACTED**]. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company's share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to [**REDACTED**];

(iv) no company within our Group is presently listed on any stock exchange or traded on any trading system;

(v) our Company has no outstanding convertible debt securities or debentures;

(vi) there is no arrangement under which future dividends are waived or agreed to be waived;

(vii) none of the persons whose names are listed in the paragraph headed "– E. Other Information – 8. Qualifications and Consents of Experts" above is interested beneficially or non-beneficially in any shares in any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for, any securities in any member of our Group; and

(viii) there is no restriction affecting the remittance of profits or repatriation of capital into Hong Kong and from outside Hong Kong.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this Document and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

(a) the written consents referred to in the section headed "Statutory and General Information – E. Other Information – 8. Qualifications and Consents of Experts" in Appendix V to this Document; and

(b) copies of the material contracts referred to in the section headed "Statutory and General Information – B. Further Information about our Business – 1. Summary of Material Contracts" in Appendix V to this Document.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **https://kayou110.com** during a period of 14 days from the date of this Document:

(a) the Memorandum and Articles of Association;

(b) the Accountants' Report received from Ernst & Young, the text of which is set out in Appendix I to this Document;

(c) the report on the unaudited pro forma financial information from Ernst & Young, the text of which is set out in Appendix II to this Document;

(d) the audited consolidated financial statements of our Group for the two financial years ended December 31, 2021 and 2022 and unaudited consolidated financial statements of our Group for the nine months ended September 30, 2023;

(e) the report issued by China Insights Industry Consultancy Limited, the summary of which is set out in the section headed "Industry Overview" in this Document;

(f) the property valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the text of which is set out in Appendix IV to this Document;

(g) the legal opinions issued by Jingtian & Gongcheng, our PRC Legal Advisor, in respect of certain aspects of our Group in the PRC;

(h) the letter of advice prepared by Harney Westwood & Riegels, our Cayman legal advisors, in respect of certain aspects of the Cayman Companies Act referred to in Appendix III to this Document;

(i) the material contracts referred to in the section headed "Statutory and General Information – B. Further Information about our Business – 1. Summary of Material Contracts" in Appendix V to this Document;

(j) the written consents referred to in the section headed "Statutory and General Information – E. Other Information – 8. Qualifications and Consents of Experts" in Appendix V to this Document;

(k) the service contracts and letters of appointment referred to in the section headed "Statutory and General Information – C. Further Information about our Directors and Substantial Shareholders – 3. Directors' Service Contracts and Appointment Letters" in Appendix V to this Document;

(l) the terms of the Pre-[**REDACTED**] Equity Incentive Plan; and

(m) the Cayman Companies Act.