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Application Proof of

52TOYS Development Co., Ltd.*

北京樂自天成文化發展股份有限公司

(the “Company”)

(a joint stock company established in the People’s Republic of China with limited liability)

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52TOYS

52TOYS Development Co., Ltd.*

北京樂自天成文化發展股份有限公司

(A joint stock company established in the People's Republic of China with limited liability)

[REDACTED]

Number of [REDACTED] under the [REDACTED]	[REDACTED] H Shares (subject to the [REDACTED])
Number of [REDACTED]	[REDACTED] H Shares (subject to adjustment)
Number of [REDACTED]	[REDACTED] H Shares (subject to adjustment and the [REDACTED])
Maximum [REDACTED]	[REDACTED] per H Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	RMB1.00 per H Share
Stock code	[REDACTED]

Joint Sponsors, [REDACTED],

[REDACTED], [REDACTED] and [REDACTED]



(In no particular order)

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[REDACTED]

* For identification purpose only

[REDACTED]

[REDACTED]

IMPORTANT

[REDACTED]

IMPORTANT

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read this document in its entirety 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 “Risk Factors” of this document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED]. Your [REDACTED] should be made in light of these considerations.

OVERVIEW

Our Story

For millennia, where there are people, there is play.

We play for fun, as even the simplest objects—a rock, a stick, a ball of string—can bring immense joy. But there is more. When we play we enter a land of wonder, where we walk in harmony with our most cherished ideals: beauty, kindness, truth; adventure, companionship, contentment. For a moment we escape the confines of everyday life and reenact it in our pure imagination, and become free.

At 52TOYS, we believe in the power of play, and hold it our mission to share dreams, joy and inspiration with people around the world. “52” is both a soundalike to “I love” in Mandarin and the number of weeks in a year. We are a wild bunch who love to play all year round, and our passion is to get everyone to do the same, so that we are all reunited with our best nature, and the world is a better place.

Let’s play.

Who We Are

We are a leading IP toy company in China, with a portfolio of over 100 proprietary and licensed IPs as of December 31, 2024. Since the launch of our brand in 2015, we have followed an IP-centric strategy, leveraging our acute insights into diverse consumer needs and comprehensive product development capabilities to continually develop engaging IP toys of multiple genres and in turn enhance the commercial value and influence of IPs. According to CIC, we are the second-largest multi-genre Chinese IP toy company in terms of China GMV in 2024, and the third-largest Chinese IP toy company overall by the same measure.

In the IP toy industry, our capability to offer products across multiple genres—different body formats such as figures, action figures, wind-up toys, mecha & model kits, plush toys and accessories—is difficult to achieve but key to success. It not only demonstrates our mastery of diverse creative design and production techniques, but also underpins our ability to tailor product features to evoke the true essence of each IP. In mature toy markets such as Japan and the United States, the IP toy sector is dominated by a handful of multi-genre operators, with the top three players in each of the markets holding 72.2% and 49.3% market shares, respectively. According to CIC, the Chinese market is expected to follow the same trend of consolidation, and we are strategically positioned to remain a leader.

In addition, we are one of a few leading Chinese companies in the industry operating along the entire integrated value chain spanning IP incubation and development, product design, flexible supply chain and omni-channel distribution, according to CIC. With agile supply chain management, we maintain an efficient and scalable operational structure.

Based on our IP-centric strategy, multi-genre operation capabilities and integrated value chain, we continually deliver popular licensed IP products such as Crayon Shin-chan and Tom & Jerry. In 2024, our Crayon Shin-chan and Tom & Jerry product series ranked first in terms of GMV in China among products based on the same IPs, according to CIC. Our products based on proprietary IPs, such as BeastBox, Panda Roll and Sleep, have also garnered strong consumer appeal. For example, we launched over 160 SKUs

SUMMARY

under our BeastBox IP and achieved a cumulative GMV of over RMB190 million during the Track Record Period.

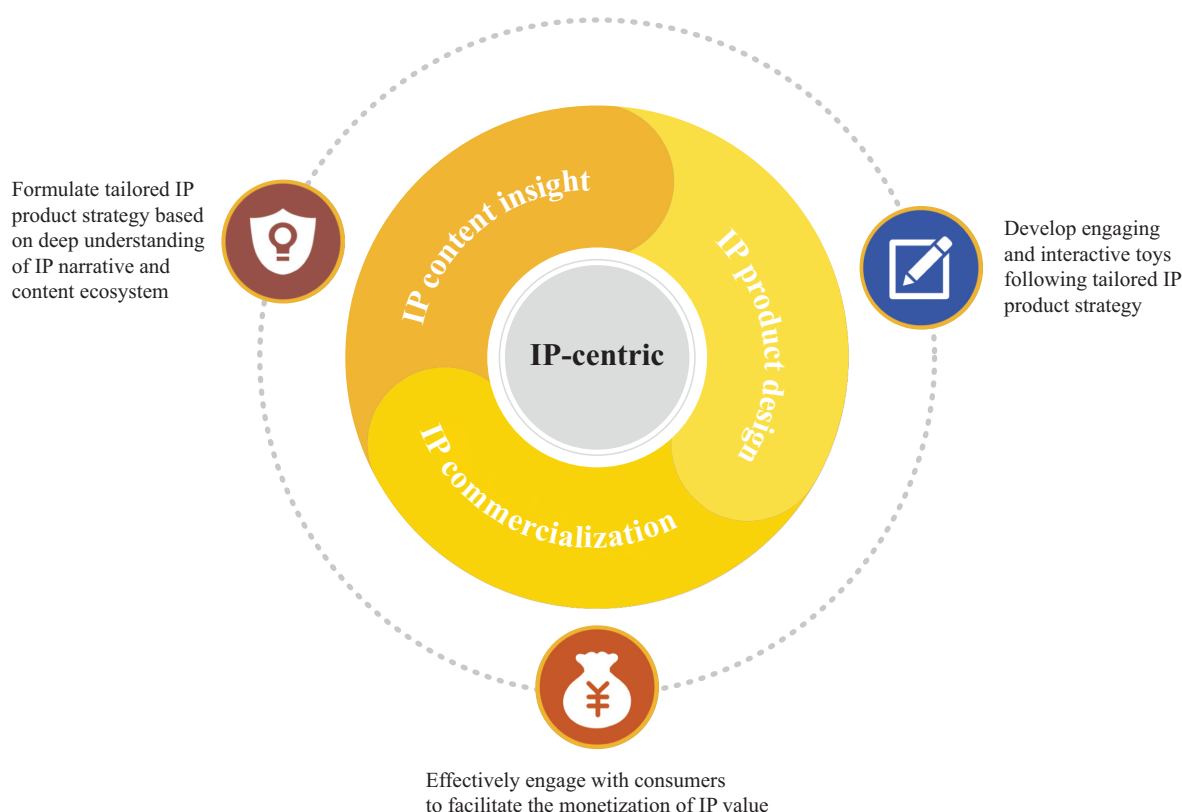
During the Track Record Period, we achieved significant growth in revenue, from RMB462.9 million in 2022 to RMB630.1 million in 2024, representing a CAGR of 16.7%. In particular, our revenue from overseas markets increased from RMB35.4 million in 2022 to RMB147.4 million in 2024, at a CAGR of over 100%.

Our Distinctive Business Model: The IP-Centric Approach

We have spearheaded our distinctive IP-centric strategy, which focuses on IP as the core driver of cross-departmental collaboration, aligning all functional units around IP planning, development and execution and breaking traditionally segmented business structures.

Key features of our IP-centric approach include:

- Content insight: deep understanding of IP narratives and content ecosystem, audience profiles and market trends to formulate tailored product strategies.
- Product design: industry-leading design capabilities paired with agile supply chains to deliver fun and innovative products with breakthroughs in materials, mechanics and player interaction.
- Commercialization: an omni-channel distribution network covering extensive retail outlets and diverse consumer scenarios; and enhanced fan engagement through private domain operations and interactive fan-centered experiences, completing a dynamic feedback loop that enriches both IP management and product development.



SUMMARY

Leveraging our IP-centric approach, we are able to create a diverse product matrix based on a tailored IP product strategy, forming a self-reinforcing cycle that broadens IP content ecosystem, enriches IP value and prolongs IP lifecycle.

Dual Growth Engine of Proprietary and Licensed IPs

Our rich IP portfolio spans all age groups and consumption scenarios, powered by two synergetic engines, the creation and curation of our proprietary IPs and the collaboration with top-tier licensed IPs. Our proven expertise in IP incubation, product design and IP operations—honed through the successful operation of our proprietary IPs—has enabled us to secure licenses from leading global IPs. Such collaborations have accelerated our growth, further sharpened our product development capabilities and reinforced our competitive advantages. These gains are channeled back into accelerating the growth and development of our proprietary IPs.

- Proprietary IPs.** As of December 31, 2024, we had successfully incubated and managed 35 proprietary IPs, including (i) pop IPs, such as Nook, Sleep, Lilith and CiCiLu, (ii) sci-fi IPs, such as BeastBox, and (iii) cultural IPs, such as Panda Roll and Modern Ancient Series (超活化). Notably, BeastBox adopts a model inspired by the Japanese *Seisaku Iinkai* (production committee) system, fostering strategic internal and external collaborations to diversify its content ecosystem, encompassing comics, novels, animations and more, driving cross-sector growth opportunities. Our continuous development of character-driven narratives has amplified fanbase engagement, expanded IP influence and unlocked sustainable monetization channels.
- Licensed IPs.** As of December 31, 2024, we had 80 licensed IPs, including internationally renowned classics such as Crayon Shin-chan and Tom & Jerry. Our success in licensed IP development stems from a proven hit-making formula, which begins with extracting and reimagining an IP’s core value proposition, followed by segmenting target audiences and aligning product design with the IP’s characteristics and consumer preferences. Anchored in our robust design expertise and multi-genre product portfolio, we build and maintain deep, long-term collaborations with IP proprietors and licensors to achieve mutual growth, as demonstrated by our top selling IPs such as Crayon Shin-chan, which generated over RMB600 million in GMV during the Track Record Period.



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OUR MARKET OPPORTUNITY

IP toys represent a segment of a broader IP derivative product market. In China, this market has significant growth potential, driven by rising disposable income, increasing consumer willingness to spend, the proliferation of high-quality entertainment IP, including the newly in-vogue China-chic IPs, and growing demand for pan-entertainment products and services. According to CIC, China’s IP derivative product market reached RMB174.2 billion in 2024 and is projected to grow at a CAGR of 14.0% to RMB335.7 billion in 2029. Compared to the others, the IP toy segment is the largest, with a market size of RMB75.6 billion in GMV in 2024 (43.4%), and is expected to be the fastest-growing, to RMB167.5 billion in 2029 at a CAGR of 17.2%.

In 2024, China’s per capita GDP crossed the threshold of US\$10,000. According to CIC, consumers tend to increase their expenditures on cultural and entertainment products and services after a country’s per capita GDP exceeds that milestone. Demographic trends, such as declining birth rates and smaller family units, combined with the pressures of modern lifestyles, further amplify demand for emotionally resonant products. IP toys, with their strong emotional appeal, are well positioned to address these evolving consumption patterns, mirroring development trajectories observed in developed Asian markets such as Japan and South Korea.

As the Chinese IP toy industry transitions from its nascent stage—characterized by limited product genres and inconsistent quality—toward greater diversification and more refined craftsmanship, leading players are setting the pace for innovation, driving both quality improvement and market evolution. Against this backdrop, high-quality and culturally distinctive Chinese IP toys are increasingly drawing attention on the global stage, unlocking valuable growth opportunities for Chinese IP toy companies.

OUR IP PORTFOLIO AND PRODUCT OFFERINGS

As a leading IP toy company in China, we have followed an IP-centric strategy, leveraging our acute insights into diverse consumer needs and comprehensive product development capabilities to continually develop engaging IP toys of multiple genres and in turn enhance the commercial value and influence of IPs. Since our inception, we have accumulated a diverse portfolio of IPs through self-development and licensing. As of December 31, 2024, we had 35 proprietary IPs, primarily including (i) pop IPs, such as Nook, Sleep, Lilith and CiCiLu, (ii) sci-fi IPs, primarily including BeastBox (猛獸匣), our mecha IP and (iii) cultural IPs, primarily including Panda Roll and the Modern Ancient Series (超活化), our IP targeting the cultural tourism market.



NOOK



Sleep



Lilith



CiCiLu



NINNIC



Pouka Pouka



BeastBox



Panda Roll



Modern Ancient Series

SUMMARY

In addition to our success in creating and incubating our proprietary IPs, our successful track record in commercializing licensed IPs positions us as a favored partner for IP proprietors and licensors, including some of the most renowned in the world. As of December 31, 2024, we had 80 licensed IPs. Our licensed IP portfolio includes a wide range of IPs, ranging from animations, movies, comics and games. Our products developed from these licensed IPs are popular among the audience of such IPs. The table below sets forth certain information on our selected licensed IPs under our IP licensing agreements in effect as of the Latest Practicable Date.

IP	Type of counterparty	Licensed territory	Year(s) of relationship	License expiration year ⁽¹⁾
Crayon Shin-chan	IP licensor	Mainland China	7	2027
	IP licensor	10 regions and countries overseas	2	2025-2027 ⁽²⁾
Disney: Disney Classics, Disney Princess, Lotso, IP proprietor Stitch, Frozen, <i>Toy Story</i> , Dumbo, Chip ‘n’ Dale, Winnie the Pooh, etc.		Mainland China and 10 regions and countries overseas	6	2025
Disney (20th Century Studios): Alien, Predator, IP proprietor etc.		Mainland China	6	2025
Warner Bros.: Tom & Jerry, The Nun, Superman, IP proprietor Rick and Morty, The Powerpuff Girls, etc.		PRC ⁽³⁾ and 38 countries overseas	5	2026
Doraemon	IP licensor	Mainland China	4	2026
	IP licensor	5 countries overseas	1	2025-2026 ⁽²⁾
<i>Destiny of An Emperor</i>	IP proprietor	Global	4	2028
<i>The Wandering Earth 2</i>	IP proprietor	Mainland China and Japan	3	2025
Sanrio: Cinnamoroll, Pompompurin, Pochacco, IP licensor Kuromi, My Melody, Hello Kitty, etc.		Mainland China	2	2026
Chiikawa	IP licensor	Mainland China	2	2026
<i>BLADES OF THE GUARDIANS</i> (镖人)	IP proprietor	Global	1	2027
Universal: Minions, <i>How to Train Your Dragon</i> , IP proprietor Frankenstein, Dracula, The Mummy, Werewolf, <i>Creature from the Black Lagoon</i> , etc		PRC ⁽³⁾	1	2027

Notes:

- (1) The term of our licensing agreements is generally from one to three years, and can be renewed upon mutual agreement. Such arrangements are in line with industry practice, according to CIC. We do not expect there to be any material difficulties in renewing our major licensing agreements upon their expiry.
- (2) The expiration dates of our licensing agreements for such IPs differ depending on the licensed territory.
- (3) Includes mainland China, Hong Kong, the Macau Special Administrative Region and Taiwan.

SUMMARY

With not only diverse creative design and production techniques across different toy genres, but also the strategic ability to tailor product features to evoke the unique characteristics of each IP to fully express its core value, we have developed a diverse multi-genre product portfolio with different pricing and interactive experiences under each IP that appeal to a wide demographic range of consumers. As of the Latest Practicable Date, we had nearly 2,800 SKUs available for sale, encompassing figures, action figures, mecha & model kits, wind-up toys, plush toys and accessories.



OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths have fueled our success and will continue to drive our future growth:

- Rich IP portfolio of distinctive proprietary IPs and globally recognized licensed IPs;
- Creative multi-genre product toolkit in seamless combination with IP portfolio;
- Omni-channel sales network and multi-dimension marketing initiatives;
- Proven global expansion capabilities; and
- Industry veteran founders and management team with enduring passion for IP toys.

See “Business—Our Competitive Strengths.”

OUR STRATEGIES

We will continue to pursue the following strategies to drive further growth:

- Further enhance the IP-centric strategy and boost IP development and operation;
- Continue to enrich product genres to enhance product excellence;
- Expand direct and targeted sales channels to advance consumer reach;

SUMMARY

- Advance global strategies to elevate international brand presence; and
- Attract and cultivate a global talent pool to continually enhance our team.

See “Business—Our Strategies.”

OUR CREATIVE PROCESS

We are a business driven by creativity. We consider our toys vessels for delivering emotional value. During the creative process, our designers and partner artists imbue our toys with a sense of spiritual value that transcends the physical form. We create and develop most of our proprietary IPs in-house and have developed over 30 proprietary IPs. We also actively look for IPs that can potentially complement our current product offering and further expand our target consumer groups. When developing or selecting the IPs to be licensed, we consider key factors including popularity, lifecycle, consumer preferences and potential for product offering expansion. Anchored in our robust design expertise and expansive product portfolio, we build and maintain deep, long-term collaborations with IP proprietors and licensors to achieve mutual growth.

We have established a professional in-house design team consisting of 85 experienced designers as of December 31, 2024. Our in-house designers are deeply involved in the IP and product development process. In addition, we actively partner with artists globally. As of the Latest Practicable Date, we had collaborated with over 40 partner artists in mainland China, Hong Kong, Japan, Malaysia, United States and United Kingdom. See “Business—Our Designers and Creative Process.”

MARKETING AND SALES

To better market our products and brand, we have established a professional marketing team with extensive industry experience and deep consumer insight that is responsible for formulating and conducting marketing activities and promotion campaigns. We primarily engage with fans and consumers through our membership programs, conventions and social media platforms to expand our brand presence. See “Business—Marketing and Consumer Engagement.”

We have an extensive sales network, which consists of (i) direct sales through our brand stores, roboshops, flagship stores on mainstream e-commerce platforms, “52 TOYS” *WeChat* mini program and mobile app; (ii) distribution through domestic and overseas distributors, and (iii) consignment sales at museums, amusement parks and tourist attractions in China, primarily for our BeastBox and Modern Ancient Series products. As the Latest Practicable Date, we have also successfully expanded into key markets such as Southeast Asia, Japan & South Korea and North America. See “Business—Sales Network.”

MANUFACTURING

We collaborate with specialized third-party factories to manufacture our products. Working with a network of professional factories enables us to focus on key stages of the product launch cycle, such as product design, product marketing and brand management, rationalize capital investment and resource allocation to effectively adjust our product offering in response to evolving market trends. We select partner factories based on factors such as qualification, size of operation, experience, product quality, production capacity, pricing, automation capability, equipment, reputation and compliance with applicable laws and regulations. Our dedicated supply chain management team oversees the production processes in order to make sure that our products are produced according to our high quality standards. See “Business—Manufacturing.”

SUMMARY

COMPETITION

The IP toy market in China is still in its early stages of development, but has increasingly gained public attention in recent years, supported by a broad user base and rapid market expansion. According to CIC, the IP toy market in China is relatively fragmented, with the top ten companies accounting for 46.1% of the aggregate China GMV in 2024. Our competitors comprise both international brands and domestic brands. We compete on various factors, including IP management capabilities such as selection, creation and operation of IPs, product development, diversity of product portfolio, supply chain management and brand marketing. See “Business—Competition” and “Industry Overview” for more information about the market where we operate and the competition we face.

OUR CUSTOMERS AND SUPPLIERS

Our customers primarily include distributors and consumers. Our sales to the five largest customers in each year during the Track Record Period were no more than 30% of our total sales for the same periods. Our suppliers primarily include toy and mold factories and IP proprietors and licensors. Our purchases from our five largest suppliers were RMB165.2 million, RMB171.1 million and RMB287.1 million in each year during the Track Record Period, respectively, accounting for 34.2%, 46.2% and 42.8%, respectively, of our total purchases in the same years. Purchases from our largest supplier were RMB54.7 million, RMB86.4 million and RMB105.2 million in each year during the Track Record Period, respectively, accounting for 11.3%, 23.3% and 15.7%, respectively, of our total purchases in the same years.

OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

As of the Latest Practicable Date, (i) the Concert Party Group, consisting of Mr. Chen, Mr. Huang and Ms. Bai, were collectively interested in approximately 36.81% of the Shares, (ii) Ms. Zeng, the spouse of Mr. Chen, was interested in approximately 0.25% of the Shares by virtue of her role as the general partner of Tianjin Tangdi Zhihua. Accordingly, the Concert Party Group, Ms. Zeng and Tianjin Tangdi Zhihua constitute our Single Largest Group of Shareholders. Immediately following the completion the [REDACTED], the Single Largest Group of Shareholders will in aggregate hold approximately [REDACTED]% of the Shares (assuming the [REDACTED] is not exercised). Therefore, upon Listing, they will remain as our Single Largest Group of Shareholders. For details of the relationship among the Single Largest Group of Shareholders as well as their shareholding in the Company, see “History, Development and Corporate Structure—Concert Party Arrangement and Our Single Largest Group of Shareholders” and “Relationship with our Single Largest Group of Shareholders.”

[REDACTED] INVESTMENTS

We have engaged in [REDACTED] Investments with our [REDACTED] Investors. From 2018 to 2025, our Group has completed several rounds of [REDACTED] Investments. For further details of the identity and background of the [REDACTED] Investors and the principal terms of the [REDACTED] Investments, see “History, Development and Corporate Structure—[REDACTED] Investments.”

RISK FACTORS

There are certain risks and uncertainties involved in investing in our H Shares, some of which are beyond our control. These risks are set out in “Risk Factors” in this document. Some of the major risks we face include:

- As an IP toy company, it is critical for us to adjust our product portfolio to keep pace with changing consumer preferences and industry trends. If we fail to achieve timely product iteration, we may not be able to attract and retain our customers, which could have a material adverse effect on our business, financial condition and results of operation;

SUMMARY

- The popularity of our existing IP portfolio may deteriorate, and we may not be able to successfully source, develop or commercialize new IPs, or realize the full benefit of our licensed IPs;
- We may be unable to manage and expand our multi-channel sales and distribution network effectively;
- We are subject to risks associated with our sales to overseas markets and face challenges in expanding our international operations; and
- If we are unable to obtain, maintain and protect our intellectual property rights, in particular trademarks and copyrights, our ability to compete could be affected.

SUMMARY OF KEY FINANCIAL INFORMATION

The following tables sets forth summary financial data from our consolidated financial information during the Track Record Period and should be read together with, and are qualified in their entirety by reference to, the Accountants’ Report in Appendix I to this document, including the related notes.

The following table sets forth a summary of our consolidated statements of profit or loss and other comprehensive income for the years indicated.

	Year Ended December 31,					
	2022		2023		2024	
	(RMB in thousands, except for percentages)					
Revenue	462,919	100.0%	482,308	100.0%	630,130	100.0%
Cost of sales	(329,274)	(71.1)%	(287,136)	(59.5)%	(378,598)	(60.1)%
Gross profit	133,645	28.9%	195,172	40.5%	251,532	39.9%
Selling and marketing expenses	(126,408)	(27.3)%	(117,081)	(24.3)%	(139,623)	(22.2)%
Administrative expenses	(40,692)	(8.8)%	(29,836)	(6.2)%	(36,502)	(5.8)%
Research and development expenses	(38,430)	(8.3)%	(29,540)	(6.1)%	(38,795)	(6.2)%
Other income	7,723	1.7%	10,417	2.2%	5,249	0.8%
Other gains and losses, net	(2,305)	(0.5)%	1,234	0.3%	1,500	0.2%
Impairment losses recognized on non-financial assets	(14,789)	(3.2)%	(5,844)	(1.3)%	(1,765)	(0.3)%
Finance costs	(2,452)	(0.5)%	(1,640)	(0.3)%	(2,060)	(0.3)%
Changes in fair value of financial liabilities at fair value through profit or loss (“FVTPL”)	64,257	13.9%	(91,037)	(18.9)%	(152,394)	(24.2)%
Share of results of associates	—	—	(9)	(0.002)%	(141)	(0.02)%
Impairment losses under expected Credit loss (“ECL”) model, net of reversal	(3,279)	(0.7)%	351	(0.1)%	(3,109)	(0.5)%
Loss before tax	(22,730)	(4.9)%	(67,813)	(14.1)%	(116,108)	(18.4)%
Income tax credit/(expense)	21,022	4.5%	(4,121)	(0.8)%	(5,406)	(0.9)%
Loss and total comprehensive expense for the year	(1,708)	(0.4)%	(71,934)	(14.9)%	(121,514)	(19.3)%
(Loss)/profit and total comprehensive (expense)/income for the year attributable to:						
Owners of the Company	(1,704)	(0.4)%	(71,934)	(14.9)%	(122,083)	(19.4)%
Non-controlling interests	(4)	(0.0)%	—	—	569	0.1%

SUMMARY

NON-IFRS MEASURES

To supplement our consolidated financial statements that are presented in accordance with IFRS Accounting Standards, we also use adjusted profit/(loss) for the year (a non-IFRS measure) and adjusted net margin (a non-IFRS measure), as additional financial measures, which are not required by, or presented in accordance with IFRS Accounting Standards. We believe that these non-IFRS measures facilitate comparisons of operating performance from year to year by eliminating potential impact of certain items. We believe that these measures provide useful information to investors and others in understanding and evaluating our consolidated financial statements in the same manner as they help our management. However, our presentation of adjusted profit/(loss) for the year (a non-IFRS measure) and adjusted net margin (a non-IFRS measure) may not be comparable to similar item measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, or as substitute for analysis of, our consolidated financial statements or financial condition as reported under IFRS Accounting Standards. We define adjusted profit/(loss) for the year (a non-IFRS measure) as profit/(loss) for the year adjusted for changes in fair value of financial liabilities at fair value through profit or loss (a non-cash item), [REDACTED] and share-based payment expenses (a non-cash item). In particular, financial liabilities at fair value through profit or loss represent certain shares with preferential rights that will be reclassified from liabilities to equity as a result of the conversion of shares with preferential rights into ordinary shares upon Listing. We define adjusted net margin (a non-IFRS measure) as adjusted profit/(loss) for the year (a non-IFRS measure) as a percentage of our total revenue.

	Year Ended December 31,		
	2022	2023	2024
	(RMB in thousands, except for percentages)		
Loss and total comprehensive expense for the year	(1,708)	(71,934)	(121,514)
Add:			
Changes in fair value of financial liabilities at fair value through profit or loss	(64,257)	91,037	152,394
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Share-based payment expenses	9,211	—	—
Adjusted profit/(loss) for the year (a non-IFRS measure)	(56,754)	19,103	32,013
Adjusted net margin (a non-IFRS measure)	(12.3)%	4.0%	5.1%

During the Track Record Period, we generated substantially all of our revenue from sales of products, including (i) 52TOYS-branded products based on proprietary IPs and licensed IPs and (ii) certain procured third party branded products. We also generated insignificant proportions of revenue from other services, primarily through licensing out certain proprietary IPs, such as Panda Roll, and advertising. Our revenue increased significantly from RMB462.9 million in 2022 to RMB482.3 million in 2023 and RMB630.1 million in 2024 as our business continued to grow, offering more products to consumers through diversified channels and expanding into overseas markets. The following table sets forth a breakdown of our revenue by business nature and IP types for the years indicated.

	Year Ended December 31,					
	2022		2023		2024	
	(RMB in thousands, except for percentages)					
Sales of products						
- Proprietary IPs	131,687	28.5%	129,936	27.0%	153,969	24.5%
- Licensed IPs	232,555	50.2%	286,233	59.3%	406,432	64.5%
- External Procurements	92,618	20.0%	62,244	12.9%	68,736	10.8%
	456,860	98.7%	478,413	99.2%	629,137	99.8%
Other services	6,059	1.3%	3,895	0.8%	993	0.2%
Total	462,919	100.0%	482,308	100.0%	630,130	100.0%

SUMMARY

During the Track Record Period, our gross profit increased from RMB133.6 million in 2022 to RMB195.2 million in 2023 and RMB251.5 million in 2024 and our gross profit margin improved from 28.9% in 2022 to 40.5% in 2023 and stayed relatively stable at 39.9% in 2024. Our gross profit margin was affected by various factors, including our product mix, sales channels and economies of scale. The table below sets forth the breakdown of our gross profit and the gross profit margin by business nature and IP types for the years indicated.

	Year Ended December 31,					
	2022		2023		2024	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	<i>(RMB in thousands, except for percentages)</i>					
Sales of products						
- Proprietary IPs	48,070	36.5%	60,771	46.8%	65,414	42.5%
- Licensed IPs	63,723	27.4%	117,169	40.9%	170,892	42.0%
- External Procurement	15,793	17.1%	13,337	21.4%	14,233	20.7%
	127,586	27.9%	191,277	40.0%	250,539	39.8%
Other services	6,059	100.0%	3,895	100.0%	993	100.0%
Total/Overall	133,645	28.9%	195,172	40.5%	251,532	39.9%

For further details, see “Financial Information—Description of Certain Key Items of the Consolidated Statements of Profit or Loss and Other Comprehensive Income.”

The table below sets forth a summary of our consolidated statements of financial position as of the dates indicated.

	As of December 31,		
	2022	2023	2024
	<i>(RMB in thousands)</i>		
Total non-current assets	102,084	87,361	102,494
Total current assets	362,681	382,891	424,489
Total assets	464,765	470,252	526,983
Total non-current liabilities	632,582	14,010	10,065
-Financial liabilities at FVTPL	615,741	—	—
-Other liabilities	16,841	14,010	10,065
Total current liabilities	90,256	786,249	966,203
-Financial liabilities at FVTPL	—	706,778	859,172
-Other liabilities	90,256	79,471	107,031
Total liabilities	722,838	800,259	976,268
Net current assets/(liabilities)	272,425	(403,358)	(541,714)
Net liabilities	(258,073)	(330,007)	(449,285)
Capital and Reserves			
Share capital	4,400	4,400	4,400
Reserves	(262,473)	(334,407)	(456,490)
Deficits attributable to owners of the Company	(258,073)	(330,007)	(452,090)
Non-controlling interests	—	—	2,805
Total deficits	(258,073)	(330,007)	(449,285)

SUMMARY

Our net current liabilities increased from RMB403.4 million as of December 31, 2023 to RMB541.7 million as of December 31, 2024, primarily due to (i) an increase in financial liabilities at FVTPL of RMB152.4 million, (ii) a decrease in cash and cash equivalents of RMB79.6 million and (iii) an increase in license fees payables of RMB30.9 million, partially offset by increases in (i) inventories of RMB70.0 million, (ii) financial assets at FVTPL of RMB26.1 million and (iii) trade and notes receivables of RMB13.3 million.

We recorded net current assets of RMB272.4 million as of December 31, 2022 and net current liabilities of RMB403.4 million as of December 31, 2023, primarily due to (i) an increase in financial liabilities at FVTPL of RMB706.8 million, (ii) a decrease in inventories of RMB 39.3 million and (iii) a decrease in other receivables and prepayments of RMB11.6 million, partially offset by (i) an increase in cash and cash equivalents of RMB62.6 million, (ii) an increase in trade and notes receivables of RMB17.7 million and (iii) a decrease in license fees payable of RMB9.9 million.

For further details, see “Financial Information—Selected Items from Consolidated Statements of Financial Position.”

The following table sets forth a summary of our cash flows for the years indicated.

	Year ended December 31,		
	2022	2023	2024
	<i>(RMB in thousands)</i>		
Operating cash flows before movements in working capital	(2,334)	65,786	88,808
Changes in working capital	54,840	43,673	(96,840)
Income tax paid	(6,918)	(4)	(223)
Net cash flows generated from/used in operating activities	45,588	109,455	(8,255)
Net cash flows used in investing activities	(26,426)	(21,340)	(50,805)
Net cash flows used in financing activities	(27,470)	(25,602)	(20,648)
Net (decrease)/increase in cash and cash equivalents	(8,308)	62,513	(79,708)
Cash and cash equivalents at beginning of year	176,271	168,267	230,842
Effects of foreign exchange rate changes	304	62	146
 Cash and cash equivalents at end of year	 168,267	 230,842	 151,280

For further details, see “Financial Information—Liquidity and Capital Resources—Cash Flow Analysis.”

Key Financial Ratios

	Year Ended/ As of December 31,		
	2022	2023	2024
Gross profit margin (%)	28.9	40.5	39.9
Current ratio ⁽¹⁾	4.0	0.5	0.4
Adjusted current ratio ⁽²⁾	4.0	4.8	4.0
Quick ratio ⁽³⁾	2.6	0.4	0.3
Adjusted quick ratio ⁽⁴⁾	2.6	3.8	2.5

Notes:

(1) Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the respective year.

SUMMARY

- (2) Adjusted current ratio is calculated based on the total current assets divided by the total current liabilities excluding financial liabilities at FVTPL as at the end of the respective year.
- (3) Quick ratio is calculated as total current assets less inventories divided by the total current liabilities as at the end of the respective year.
- (4) Adjusted quick ratio is calculated as total current assets less inventories divided by the total current liabilities less financial liabilities at FVTPL as at the end of the respective year.

QUALIFICATIONS FOR LISTING

Pursuant to Rule 8.05 of the Listing Rules, we must satisfy one of the three tests in relation to (i) profit; (ii) market capitalization, revenue and cash flow; or (iii) market capitalization and revenue requirements. We are able to satisfy the market capitalization, revenue and cash flow test pursuant to Rule 8.05(2) of the Listing Rules based on (i) our revenue of RMB630.1 million for the year ended December 31, 2024, which is over HK\$500 million; (ii) our expected market capitalization at the time of the Listing, which, based on the [REDACTED] of HK\$[REDACTED] per [REDACTED], being the low-end of the indicative [REDACTED] range, exceeds HK\$2 billion; and (iii) our positive cash flow from operating activities of over HK\$100 million in aggregate for the three years ended December 31, 2024, as required by Rule 8.05(2) of the Listing Rules.

[REDACTED] STATISTICS

The numbers in the following table are based on the assumptions that (i) the [REDACTED] has been completed and [REDACTED] H Shares were issued and sold in the [REDACTED], (ii) the [REDACTED] is not exercised, and (iii) [REDACTED] Shares are in issue and outstanding following the completion of [REDACTED].

	Based on an [REDACTED] of HK\$[REDACTED] per Share	Based on an [REDACTED] of HK\$[REDACTED] per Share
Market capitalization of our Shares ⁽¹⁾	HK\$[REDACTED]	HK\$[REDACTED]
Unaudited <i>pro forma</i> adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share ⁽²⁾	HK\$[REDACTED]	HK\$[REDACTED]

Notes:

- (1) The calculation of market capitalization of our Shares is based on [REDACTED] H Shares expected to be in issue immediately upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised) and the Conversion of Domestic Unlisted Shares into H Shares.
- (2) The unaudited *pro forma* adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as of December 31, 2024 is calculated after making the adjustments referred to in Appendix II and on the basis of [REDACTED] total issued Shares immediately upon the completion of the [REDACTED] (i.e. [REDACTED] total issued Shares excluding 28,120,000 Shares which carries preferential rights, and assuming the [REDACTED] is not exercised). It does not take into account (i) any Share which may be allotted and issued upon the exercise of the [REDACTED], or (ii) the shares with preferential rights issued for Series C+ Financing; (iii) termination of the preferential rights of shares with preferential rights upon completion of [REDACTED].

Upon completion of the [REDACTED], the termination of preferential rights of shares with preferential rights would have resulted in a reclassification of financial liabilities measured at fair value through profit or loss with carrying amount of RMB859,172,000 as of December 31, 2024 and total consideration of RMB23,268,000 for the shares with preferential rights issued by Company for Series C+ Financing in May 2025, to ordinary shares under equity. The unaudited *pro forma* adjusted consolidated net tangible assets of the Group attributable to owners of the Company as of December 31, 2024 would be increased by RMB[REDACTED] to RMB[REDACTED] based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] and RMB[REDACTED] based on an [REDACTED] of HK\$[REDACTED] per [REDACTED].

The effect of shares reclassification would have increased the total number of Shares in issue by [REDACTED] Shares immediately following the completion of the [REDACTED] by 28,120,000 Shares to a total of [REDACTED] Shares.

Had the above events been taken into account, the unaudited *pro forma* adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2024 per Share would be RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] and RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on an [REDACTED] of HK\$[REDACTED] per [REDACTED], respectively.

SUMMARY

FUTURE PLANS AND USE OF [REDACTED]

Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the range of the [REDACTED] stated in this document), we estimate that we will receive [REDACTED] of approximately HK\$[REDACTED] million from the [REDACTED] after deducting the [REDACTED] and other estimated expenses in connection with the [REDACTED] (assuming the [REDACTED] are not exercised). We intend to use our [REDACTED] for the purposes and in the amounts set forth below.

- Approximately [20.0]%, or HK\$[REDACTED], will be allocated to further diversify and strengthen our IP portfolio;
- Approximately [20.0]%, or HK\$[REDACTED], will be used for product design and development to launch new products, expand product genre and diversify our portfolio;
- Approximately [25.0]%, or HK\$[REDACTED], will be allocated to the expansion of our direct sales channels, enhancing brand visibility and consumer reach;
- Approximately [15.0]%, or HK\$[REDACTED], will be allocated for our marketing activities;
- Approximately [10.0]%, or HK\$[REDACTED], will be allocated to potential investments and acquisitions of companies or assets in related industries; and
- Approximately [10.0]%, or HK\$[REDACTED], will be used for working capital and other general corporate purposes.

DIVIDEND

No dividend was paid or declared by our Company during the Track Record Period. As of the Latest Practicable Date, we did not have a formal dividend policy or a fixed dividend distribution ratio. PRC laws require that dividends be paid only out of our distributable profits. Distributable profits are our after-tax profits, less appropriations to statutory and other reserves that we are required to make. Pursuant to our Articles of Association, our Board may declare dividends in the future after taking into account our results of operations, financial conditions, cash requirements and availability, and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents, applicable PRC laws and approval by our Shareholders.

[REDACTED]

Our [REDACTED] include [REDACTED], professional fees and other fees incurred in connection to the Listing and the [REDACTED]. [REDACTED] to be borne by us are estimated to be approximately HK\$[REDACTED], constituting approximately [REDACTED]% of the [REDACTED] from the [REDACTED]. The [REDACTED] include fees and expenses of the Joint Sponsors and [REDACTED] and fees (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range) of approximately RMB[REDACTED], fees and expenses of legal advisors and accountants of approximately RMB[REDACTED] and other fees and expenses of approximately RMB[REDACTED], including, among others, fees and expenses of internal control consultant, financial printer, industry consultant and background search agent. During the Track Record Period, we incurred a total of RMB[REDACTED] (HK\$[REDACTED]) in [REDACTED], among which RMB[REDACTED] (HK\$[REDACTED]) was recognized in our consolidated statement of profit or loss and other comprehensive income, and RMB[REDACTED] (HK\$[REDACTED]) was directly attributable to the issue of our Shares to the public and will be deducted from equity upon the Listing. We estimate that we will incur additional [REDACTED] of approximately RMB[REDACTED] (HK\$[REDACTED]), of which approximately RMB[REDACTED]

SUMMARY

(HK\$[REDACTED]) is expected to be charged to our consolidated statements of profit or loss and other comprehensive income, and approximately RMB[REDACTED] (HK\$[REDACTED]) is directly attributable to the issue of our shares to the public and will be deducted from equity upon the Listing. The [REDACTED] above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

RECENT DEVELOPMENTS

Our growing IP portfolio is crucial to the expansion of our product offering. We entered into agreements with the author artists of NINNIC and Pouka Pouka in February 2025 and acquired the global rights to develop and sell products based on such IPs. See “Business—Our IP Portfolio—Our Proprietary IPs—Our Pop IPs.” We entered into licensing agreements and supplemental licensing agreements with IP proprietors in 2025 and expanded our licensed IP portfolio to include *Friday the 13th*, *A Nightmare on Elm Street*, Powerpuff Girls, Superman, *How to Train Your Dragon* and three other licensed IPs.

NO MATERIAL ADVERSE CHANGE

Our Directors confirmed that, as of the date of this document, there has been no material adverse change in our financial position since December 31, 2024, and there has been no event since December 31, 2024 that would materially affect the information as set out in the Accountants’ Report in Appendix I to this document.

CSRC FILING

We [submitted] a filing to the CSRC for application of listing of the H Shares on the Stock Exchange and the [REDACTED] on [●], 2025. The CSRC [confirmed] our completion of filing on [●], 2025.

DEFINITIONS AND ACRONYMS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in “Glossary of Technical Terms” of this document.

DEFINITIONS

“52TOYS HK”	52TOYS (HK) Co. Limited (香港至愛玩具有限公司), a private company limited by shares established under the laws of the HK on October 19, 2021, and a wholly owned subsidiary of our Company;
“Accountants’ Report”	the accountants’ report for the Track Record Period prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this document;
“Articles of Association” or “Articles”	the articles of association of our Company adopted on May 20, 2025 which shall become effective as of the date on which the H Shares are listed on the Stock Exchange, as amended from time to time, a summary of which is set out in “Appendix V—Summary of Articles of Association” to this document;
“associates”	has the meaning ascribed to it under the Listing Rules;
“Bad Weather Signal”	has the meaning ascribed to it under the Listing Rules;
“Beijing Chaozhi Hele”	Beijing Chaozhi Hele Cultural Development Co., Ltd. (北京潮智合樂文化發展有限責任公司), a limited liability company established under the laws of the PRC on September 14, 2022, and a wholly owned subsidiary of our Company;
“Board” or “Board of Directors”	the board of Directors;
“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;
[REDACTED]	
“Changxing Qingzhou Rufeng”	Changxing Qingzhou Rufeng Trading Co., Ltd. (長興輕舟如風商貿有限公司), a limited liability company established under the laws of the PRC on August 7, 2023, and a wholly owned subsidiary of our Company;
“Changxing Yiguan Xinrong”	Changxing Yiguan Xinrong Trading Co., Ltd. (長興億冠信榮商貿有限公司), a limited liability company established under the laws of the PRC on March 4, 2024, and a wholly owned subsidiary of our Company;
“Chengdu Huanqu Guangnian”	Chengdu Huanqu Guangnian Cultural Development Co., Ltd. (成都歡趣光年文化發展有限公司), a limited liability company established under the laws of the PRC on June 29, 2021, and a wholly owned subsidiary of our Company;

DEFINITIONS AND ACRONYMS

“China” or “PRC”	The People’s Republic of China, but for the purpose of this document and for geographical reference only and except where the context requires otherwise, references in this document to “China” and the “PRC” do not apply to Hong Kong, the Macau Special Administrative Region and Taiwan;
“CIC”	China Insights Industry Consultancy Limited, a global market research and consulting company, which is an Independent Third Party;
“CIC Report”	an independent market research report commissioned by us and prepared by CIC for the purpose of this document;
“close associates(s)”	has the meaning ascribed to it under the Listing Rules;
“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, supplemented or otherwise modified from time to time;
“Company”	52TOYS Development Co., Ltd. (北京樂自天成文化發展股份有限公司), a limited liability company established in the PRC on July 9, 2012 and converted into a joint stock limited liability company in the PRC on June 15, 2022;
“Company Law” or “PRC Company Law”	the Company Law of the PRC (中華人民共和國公司法), as amended, supplemented or otherwise modified from time to time;
“Concert Party Agreement”	the concert party agreement entered into by Mr. Chen, Mr. Huang and Ms. Bai on May 8, 2020;
“Concert Party Group”	collectively, Mr. Chen, Mr. Huang and Ms. Bai;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules;
“Conversion of Unlisted Shares to H Shares”	the conversion of [REDACTED] Unlisted Shares in aggregate held by [REDACTED] existing Shareholders into H Shares upon the completion of the [REDACTED]. Such conversion of Unlisted Shares into H Shares and an application for the H Shares to be listed on the Stock Exchange has been filed with the CSRC on [●], 2025. The CSRC issued the filing notice on [●], 2025 in respect of the [REDACTED] and the application for listing of the H Shares on the Stock Exchange;
“Designated Bank”	HKSCC Participant’s EIPO Designated Bank;
“Director(s)”	the director(s) of our Company;
“EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), as enacted by the NPC on March 16, 2007 and effective on January 1, 2008, as amended, supplemented or otherwise modified from time to time;

DEFINITIONS AND ACRONYMS

“Employee Incentive Scheme”	the employee incentive scheme approved and adopted by our Company in September 2019, a summary of the principal terms of which is set forth in “Appendix VI—Statutory and General Information—D. Employee Incentive Scheme” to this document;
“Extreme Conditions”	extreme conditions as announced by the government of Hong Kong;
“Fast Interface for New Issuance” or “FINI”	an online platform operated by HKSCC that is mandatory for admission to trading and, where applicable, the collection and processing of specified information on subscription in and settlement for all New Listings;

[REDACTED]

“Group”	our Company and all of our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be);
“Guide”	The Guide for New Listing Applicants, as published by the Stock Exchange on November 29, 2023 and effective on January 1, 2024, as amended, supplemented or otherwise modified from time to time;
“H Share(s)”	shares of our Company for which an application has been made for listing and permission to trade on the Stock Exchange;

“H Share Registrar”	[REDACTED]
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[REDACTED]

“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“HKSCC Operational Procedures”	the Operational Procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to operations and functions of CCASS, from time to time in force;

DEFINITIONS AND ACRONYMS

“HKSCC Participant”	a participant admitted to participate in CCASS as a direct clearing participant, a general clearing participant or a custodian participant;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong dollar(s)” or “HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;

[REDACTED]

“Huanqu Guangnian (Beijing)”	Huanqu Guangnian (Beijing) Cultural Development Co., Ltd. (歡趣光年 (北京) 文化發展有限公司), a limited liability company established under the laws of the PRC on August 31, 2021, and a wholly owned subsidiary of our Company;
“Huanqu Guangnian (Shanghai)”	Huanqu Guangnian (Shanghai) Trading Co., Ltd. (歡趣光年 (上海) 商貿有限公司), a limited liability company established under the laws of the PRC on December 7, 2021, and a wholly owned subsidiary of our Company;
“Independent Third Party(ies)”	individuals or company(ies), who or which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is not a connected person of our Company within the meaning of the Listing Rules;

[REDACTED]

DEFINITIONS AND ACRONYMS

[REDACTED]

“Latest Practicable Date”	May 19, 2025, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication;
“Listing”	the listing of our H Shares on the Main Board;
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange;
“Listing Date”	the date, expected to be on or about [REDACTED] on which dealings in our H Shares first commence on the Main Board;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange;
“Mr. Chen”	Mr. Chen Wei (陳威), our executive Director, chairman of the Board, chief executive officer, general manager and a member of the Single Largest Group of Shareholders;
“Mr. Huang”	Mr. Huang Jin (黃今), our executive Director, president and a member of the Single Largest Group of Shareholders;
“Ms. Bai”	Ms. Bai Jie (柏潔), our executive Director, vice president and a member of the Single Largest Group of Shareholders;
“Ms. Zeng”	Ms. Zeng Lihui (曾麗輝), the spouse of Mr. Chen and a member of the Single Largest Group of Shareholders;

[REDACTED]

DEFINITIONS AND ACRONYMS

[REDACTED]

“PRC Legal Advisors”	Jingtian & Gongcheng, our legal advisors as to PRC laws in connection with the [REDACTED];
“[REDACTED] Investment(s)”	the [REDACTED] investment(s) in our Company, details of which are set out in “History, Development and Corporate Structure—[REDACTED] Investments” in this document;
“[REDACTED] Investor(s)”	the investor(s) of the [REDACTED] Investments;

[REDACTED]

“Regulation S”	Regulation S under the U.S. Securities Act;
“Renminbi” or “RMB”	the lawful currency of the PRC;
“Rule 144A”	Rule 144A under the U.S. Securities Act;
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong;
“Share(s)”	ordinary share(s) with par value RMB1.00 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of our Share(s);
“Single Largest Group of Shareholders”	collectively, the Concert Party Group, Ms. Zeng and Tianjin Tangdi Zhihua;
“State Council”	the State Council of the PRC (中華人民共和國國務院);

[REDACTED]

DEFINITIONS AND ACRONYMS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchange and Clearing Limited;
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules;
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Supervisor(s)”	the supervisor(s) of our Company;
“Supervisory Committee”	the supervisory committee of our Company;
“Suzhou Zeruofang”	Suzhou Zeruofang Cultural Development Co., Ltd. (蘇州澤若昉文化發展有限公司), a limited liability company established under the laws of the PRC on October 8, 2021, and a wholly owned subsidiary of our Company;
“Tianjin Qingyunhe”	Tianjin Qingyunhe Cultural Development Co., Ltd. (天津青雲赫文化發展有限公司), a limited liability company established under the laws of the PRC on December 18, 2019, and a wholly owned subsidiary of our Company;
“Tianjin Tangdi Zhihua”	Tianjin Tangdi Zhihua Management Consulting Partnership Enterprise (Limited Partnership) (天津棠棣之華管理諮詢合夥企業 (有限合夥)), a limited partnership established in the PRC on November 24, 2020, and a member of the Single Largest Group of Shareholders;
“Tianjin Youleting”	Tianjin Youleting Cultural Development Co., Ltd. (天津悠樂町文化發展有限公司), a limited liability company established under the laws of the PRC on November 8, 2019, and a wholly owned subsidiary of our Company;
“Tianjin 52 Jiqu” or “Employee Ownership Platform”	Tianjin 52 Jiqu Enterprise Management Consulting Partnership Enterprise (Limited Partnership) (天津五貳極趣企業管理諮詢合夥企業 (有限合夥)), a limited partnership established in the PRC on October 17, 2019, our employee ownership platform;
“Track Record Period”	the three years ended December 31, 2024;

[REDACTED]

“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction;
“US\$” or “US dollars”	United States dollar(s), the lawful currency of the United States;
“U.S. persons”	U.S. persons as defined in Regulation S;
“U.S. Securities Act”	United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time;

DEFINITIONS AND ACRONYMS

“we,” “us” or “our”	the Company or the Group, as the context requires;
“Xi’an Tiancheng Zhijia”	Xi’an Tiancheng Zhijia Cultural Development Co., Ltd. (西安天成智迦文化發展有限公司), a limited liability company established under the laws of the PRC on January 4, 2024, and a non-wholly owned subsidiary of our Company; and
“Zhiwu Shengyuan”	Zhiwu Shengyuan (Huzhou) Trading Co., Ltd. (致物盛源 (湖州) 商貿有限公司), a limited liability company established under the laws of the PRC on November 23, 2023, and a non-wholly owned subsidiary of our Company.

ACRONYMS

“AFRC”	the Accounting and Financial Reporting Council of Hong Kong;
“CAGR”	compounded annual growth rate;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC;
“CNIPA”	National Intellectual Property Administration of the PRC (國家知識產權局);
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會);
“ESG”	environmental, social and corporate governance;
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited;
“IASB”	International Accounting Standards Board;
“IFRS”	International Financial Reporting Standards;
“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會);
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC;
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局);
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time;
“STA”	the State Taxation Administration of the PRC (中華人民共和國國家稅務總局); and
“VAT”	value-added tax.

DEFINITIONS AND ACRONYMS

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in the document in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail. English translations of company names and other terms from the Chinese language are provided for identification purposes only.

Certain amounts and percentage figures included in this document were subjected to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be arithmetic aggregation of the figures preceding them.

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.

GLOSSARY OF TECHNICAL TERMS

In this document, unless the context otherwise requires, explanations and definitions of certain terms used in this document in connection with our Group and our business shall have the meanings set out below. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

“ABS”	acrylonitrile butadiene styrene, a thermoplastic polymer and a common material of collectible toys
“action figure”	poseable character doll
“ASTM F963”	U.S. consumer product safety standard for toys
“DFM”	design for manufacturability, a product design philosophy focusing on creating a better design at a lower cost by optimizing the selection of materials and manufacturing processes
“EN71”	European Union safety standard for toys
“ERP”	enterprise resource planning, which is the integrated management of main business processes, consisting of integrated software applications that help manage a business and automate many back office functions related to technology, service and human resources
“figure”	character doll, in terms of collectible toys
“flocked toy”	toy with velvety or suede texture
“GB 6675-2014”	the national standards for toy safety
“GB/T 16716.1-2018”	recommended national standards for general requirements for the use of ISO standards in the field of packaging and the environment
“GB/T 26701-2011”	recommended national standards for general technical requirements for model products
“GMV”	gross merchandise value, the total value (with VAT) of products sold on over a specific period of time, without considering product returns
“IP”	intellectual property; in the context of the toy culture and entertainment industry, the term “IP” is used to refer to the cluster of core idea, concept, theme and design of a single or a series of characters or storylines and the various forms of underlying intellectual property rights, as a countable noun
“IP licensor”	the individual or entity that grants a license to another party. An IP licensor may not necessarily be an IP proprietor
“IP proprietor”	the individual or entity that holds the legal rights over a specific piece of IP

GLOSSARY OF TECHNICAL TERMS

“KOC”	key opinion consumer
“KOL”	key opinion leader
“mecha”	first used in Japanese as the short form of “mechanism” or “mechanical”, the term initially referred to giant robots or machines in science fiction and has evolved to encompass all mechanical objects, including cars, guns, computers, robots or robot-like designs
“model kit”	a model sold with preformed parts for assembly and painting by the player
“plush toy”	also known as plushie, a stuffed doll of soft material such as cotton
“PVC”	polyvinyl chloride, a type of plastic and a common material of collectible toys
“Roboshop(s)”	automated retail system(s) where transactions are completed without direct human interaction
“SKU(s)”	stock keeping units, being the smallest unit of inventory available for sale
“UGC”	user-generated content
“WeChat mini program”	lightweight application that operates within the <i>WeChat</i> ecosystem without the need for downloads or installations
“wind-up toy”	also known as wind-up toy, a moving mechanical toy powered by a clockwork motor

FORWARD-LOOKING STATEMENTS

We have included in this document forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This document contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words “aim,” “anticipate,” “believe,” “could,” “expect,” “going forward,” “intend,” “may,” “ought to,” “plan,” “project,” “seek,” “should,” “will,” “would” and the negative of these words and other similar expressions, as they relate to our Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this document. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our operations and business prospects;
- our strategies, plans, objectives and goals and our ability to successfully implement them;
- future developments, trends, conditions and competitive landscape in the industry and markets in which we operate;
- our ability to identify and satisfy consumer demands and preferences;
- our ability to maintain good relationships with business partners;
- estimates of our costs, expenses, future revenues, capital expenditures and our needs for additional financing;
- our ability to attract and retain senior management and key employees;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our financial condition and operating results and performance;
- industry trends and competition; and
- general political and economic conditions;

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to the cautionary statements in this section.

In this document, statements of or references to our intentions or those of our Directors are made as of the date of this document. Any such information may change in light of future developments.

RISK FACTORS

An [REDACTED] in our H Shares involves significant risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, as well as our financial statements and the related notes, and the “Financial Information” section, before making an [REDACTED] in our H 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 market price of our H 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 will not be updated after the date hereof, and is subject to the cautionary statements in “Forward-looking Statements” in this document.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

As an IP toy company, it is critical for us to adjust our product portfolio to keep pace with changing consumer preferences and industry trends. If we fail to achieve timely product iteration, we may not be able to attract and retain our customers, which could have a material adverse effect on our business, financial condition and results of operation.

During the Track Record Period, we generated substantially all of our revenue from sales of IP toy products. The development of the IP toy market is subject to uncertainties and may be impacted by changing social and economic circumstances and evolving consumer preferences. The IP toy market faces unpredictable challenges, driven by shifting social, economic and cultural dynamics. Consumers’ discretionary spending patterns on toys are influenced by various factors, including economic conditions, demographic trends, social changes and volatile future economic prospects. These factors contribute to the unpredictability of consumer behavior and present significant risks to the IP toy market, which in turn could affect our business. Any decline in the IP toy market as a whole could have a material and adverse impact on our future prospects, business, results of operations and financial condition.

The popularity and consumer appeal of various types of toys are also affected by evolving consumer preferences. Moreover, the IP toy industry is also subject to risks inherent with IPs. See “—The popularity of our existing IP portfolio may deteriorate, and we may not be able to successfully source, develop or commercialize new IPs, or realize the full benefit of our licensed IPs” for further details. These uncertainties may impact the growth and competitive landscape of the IP toy market and have a material and adverse impact on our future prospects, business, results of operations and financial condition.

Our industry is highly competitive and relatively fragmented. In 2024, there were numerous players in IP toy market in China, with the top ten companies accounting for 46.1% of the aggregate China GMV. To thrive in the competitive environment and stand out among competitors, ongoing innovation and adaptability to consumer tastes and trends are paramount. Our success depends not only on product innovation but also on IP-related abilities such as selection, development and commercialization, as well as production quality and effective marketing efforts. Failure as to any of these aspects can negatively affect our ability to sustain the popularity and market momentum of our product offering or continuously adjust our product offering in response to changing consumer preferences, which could have a material and adverse impact on our business, results of operations and financial condition.

RISK FACTORS

The popularity of our existing IP portfolio may deteriorate, and we may not be able to successfully source, develop or commercialize new IPs, or realize the full benefit of our licensed IPs.

The success of our IP toys is heavily reliant on the recognition and popularity of the IPs in our IP portfolio. However, whether such IPs will remain popular among the consumers is beyond our control, as consumer preferences may shift and unforeseen negative publicity surrounding these IPs may arise. Any decline in the recognition or popularity of our IPs could significantly impact our sales performance and reputation. In addition, we cannot assure you that we will always be successful in developing or identifying both proprietary and licensed IPs that resonate with consumers. For proprietary IPs, success depends on our ability to interpret market trends, create engaging themes, develop compelling storylines and characters, and produce content that resonates with consumers. Misjudging market preferences could lead to a mismatch between expectations and actual market reception, while rapid changes in consumer tastes or market dynamics could result in newly launched IPs losing appeal or relevance. For licensed IPs, our reliance on third-party-owned content such as movies, TV shows or video games exposes us to additional risks. The success of these products is closely tied to the popularity and timing of the underlying content, which largely depends on the efforts of external parties and broader conditions within the media and entertainment industry. A lackluster performance from these licensed IPs or a shift in consumer interest away from licensed content can adversely affect our operations and profitability.

Moreover, some of our license agreements require us to pay minimum royalty guarantees, which may in some cases be greater than what we are ultimately able to recoup from actual sales. Acquiring or renewing licenses may require the payment of relatively high minimum guaranteed royalties that we consider may cause difficulty to achieve profitability, which may result in discontinuing licenses that we currently hold when they become available for renewal, or missing business opportunities for new licenses. Additionally, we have no guarantee that any particular IP we are licensed with will translate into a successful product. Products tied to a particular content release may be developed and released before demand for the underlying content is known. The underperformance of any such product may result in reduced sales and operating profit for us.

The ability to successfully commercialize our proprietary and licensed IPs is also crucial to our business. Our efforts to commercialize IPs may not always yield the desired outcomes. The economic benefits derived from new IPs may fall short of expectations or fail to offset the IP licensing costs associated with licensed IPs or the research and development costs linked to proprietary IPs. Any failure to commercialize our proprietary and licensed IPs could have a material and adverse impact on our future prospects, business, results of operations and financial condition.

We may be unable to manage and expand our multi-channel sales and distribution network effectively.

We face risks associated with managing our multi-channel sales and distribution network consisting of (i) direct sales through our brand stores, roboshops, flagship stores on mainstream e-commerce platforms and our “52 TOYS” WeChat mini program and mobile app; (ii) distribution through domestic and overseas distributors, and (iii) consignment sales at museums, amusement parks and tourist attractions in China for some of our BeastBox and Modern Ancient Series products. Our multiple sales channels might compete with each other, resulting in cannibalization among different channels, which could have a material and adverse impact on our business, results of operations and financial condition.

More specifically, distributorship is an important component of our multi-channel sales network. We had a total of 336 and 90 distributors in China and overseas, respectively, as of December 31, 2024. Our revenue generated from distributors amounted to RMB308.6 million, RMB299.7 million and RMB421.0 million, accounting for 66.7%, 62.1% and 66.8% of our total revenue in 2022, 2023 and 2024, respectively. We face various risks in relation to the distributorship model, including:

- We have limited control over our distributors, who may not always comply with relevant laws, regulations, government guidelines, our requirements and policies or adhere to agreements with

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us. This could lead to issues such as potential liabilities, misuse of our logo, violations of our guidelines, or inappropriate marketing activities, all of which may negatively impact product sales, consumer experience and brand recognition.

- Some distributors may sell our products to sub-distributors without our involvement or oversight, making it difficult to control their sales activities.
- Some distributors may violate our guidelines and sales strategies, leading to competition among themselves for market share.
- Some distributors may fail to sell our products in a timely manner or deviate from our guidelines, strategies and pricing-related policies, which could result in price disparities, decreased product sales and damage to our reputation.
- We may have limited control over disorganized ordering and stockpiling by distributors, making it challenging to make sales forecast and manage inventory levels effectively.
- Some distributors may violate our guidelines by selling our products to unauthorized channels or regions. Such actions may cause price erosion, brand dilution, conflicts with authorized distributors and disruptions in pricing strategies across different channels or regions. This can further intensify competition among distributors and undermine our brand recognition.

Occurrence of any of these could have a material and adverse impact on our business, results of operations and financial condition.

Additionally, our ability to maintain and expand our sales network significantly impacts our success, but this is influenced by various factors, some of which are beyond our control. For instance, if we encounter challenges in maintaining positive relationships with existing partners within our sales channels, experience disputes with them, or struggle to expand our sales network with new partners under favorable terms, our market presence across different channels or regions may be compromised. Failure to effectively execute our development and growth strategies, along with providing sufficient resources and operational support to our sales channels, could have a material and adverse impact on our future prospects, business, results of operations and financial condition.

We are subject to risks associated with our sales to overseas markets and face challenges in expanding our international operations.

Expanding our overseas sales is a part of our long-term business strategy. We plan to develop direct overseas operations. As of December 31, 2024, we expanded into key overseas markets such as Southeast Asia, Japan & South Korea and North America. As of December 31, 2024, we had a network of 16 overseas authorized brand stores, and established presence across leading e-commerce platforms including *Amazon*, *Shopee* and *TikTok*. In 2022, 2023 and 2024, our revenue generated from overseas market amounted to RMB35.4 million, RMB58.6 million and RMB147.4 million, accounting for 7.6%, 12.1% and 23.4% of our total revenue in the corresponding periods, respectively, and our gross profit generated from overseas market amounted to RMB10.2 million, RMB24.0 million and RMB61.3 million, respectively. We plan to continue expanding our sales and operations into overseas markets.

However, we may face risks associated with expanding into markets in which we have limited or no experience and in which we may be less well-known. We may be unable to attract a sufficient number of customers, fail to anticipate competitive conditions or face difficulties in operating effectively in these new markets. Our overseas sales and expansion are subject to various risks including:

- political instability and general economic or political conditions in particular countries or regions;

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- import or export licensing requirements and tariffs imposed by various foreign countries;
- increased costs to protect intellectual property and personal data security;
- difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex domestic and international laws, treaties and regulations;
- different regulatory structures and unexpected changes in regulatory environments;
- increased distribution costs, disruptions in shipping or reduced availability of freight transportation;
- challenges and increased expenses associated with staffing and managing international and cross-border operations;
- inability to recruit international talent and challenges in replicating or adapting our company policies and procedures to operating environments different from that of China;
- exchange rate fluctuations; and
- fluctuations in selling prices and margins of our overseas sales.

As we expand further into new regions and markets, these risks could intensify. Negative consequences relating to these risks and uncertainties could jeopardize or limit our overseas sales and expansion. Accordingly, our efforts to expand our overseas sales and operations may not be successful, which could materially and adversely affect our business, financial condition, results of operations and prospects.

If we are unable to obtain, maintain and protect our intellectual property rights, in particular trademarks and copyrights, our ability to compete could be affected.

Our intellectual property is a valuable asset of our business. The market for our products depends to a significant extent upon the value associated with our product design and the intellectual properties we develop and license. Although certain of our intellectual property is registered in mainland China, Hong Kong and several of the foreign jurisdictions in which we operate, there can be no assurances with respect to the rights associated with such intellectual property in those jurisdictions, including our ability to register, use, maintain or defend key trademarks and copyrights. To the extent possible, we rely on trademark, trade dress, copyright, patent and trade secret laws, as well as confidentiality procedures or other contractual restrictions of same or similar nature, to establish and protect our intellectual property or other proprietary rights. However, these laws, procedures and restrictions may provide only limited and uncertain protection and any of our intellectual property rights may be challenged, invalidated, circumvented, infringed or misappropriated, including by counterfeiters. In addition, our intellectual property portfolio in many foreign countries is less extensive than our portfolio in the PRC, and the laws of foreign countries, including emerging markets in which our products are sold, may not protect our intellectual property rights to the same extent as the laws of the PRC. The costs required to protect our trademarks and copyrights may be substantial.

In addition, we may fail to apply for, or be unable to obtain, protection for certain aspects of the intellectual property used in or beneficial to our business. Further, we cannot provide assurance that our applications for trademarks, copyrights and other intellectual property rights will be granted, or, if granted, will provide sound and effective protection. In addition, third parties could bring infringement, invalidity or similar claims with respect to any of our current trademarks, copyrights and other intellectual properties, or any trademarks, copyrights or other intellectual properties we may seek to obtain in the future. Any such

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claims, whether or not successful, could be extremely costly to defend, divert management’s attention and resources, damage our reputation and brands, and substantially harm our business and results of operations. Any lawsuits or proceedings that we initiate could be expensive, take significant time and divert management’s attention from other business concerns. Litigation and other proceedings also put our intellectual property at risk of being invalidated, or if not invalidated, may result in the scope of our intellectual property rights being narrowed. In addition, our efforts to try to protect and defend our trademarks and copyrights and other intellectual properties may be ineffective. Additionally, we may provoke third parties to assert claims against us. We may not prevail in any lawsuits or other proceedings that we initiate, and the damages or other remedies awarded, if any, may not be commercially valuable. The occurrence of any of these events may have a material adverse effect on our business, financial condition and results of operations.

Furthermore, most of our products bear the trademarks and other intellectual property rights of our licensors, and the value of our products is affected by the value of those rights. Our licensors’ ability to maintain and protect their trademarks and other intellectual property rights is subject to risks similar to those described above with respect to our intellectual properties. We do not control the protection of the trademarks and other intellectual property rights of our licensors and we cannot ensure that our licensors will be able to secure or protect their trademarks and other intellectual property rights. The loss of any of our significant owned or licensed trademarks, copyrights or other intellectual property could have a material adverse effect on our business, financial condition and results of operations. In addition, our licensors may engage in activities or otherwise be subject to negative publicity that could harm their reputation and impair the value of the intellectual property rights we license from them, which could reduce consumer demand for our products and adversely affect our business, financial condition and results of operations.

We may face negative publicity, damage to our brand reputation, or be unable to effectively promote our brand.

The reputation of our “52TOYS” brand plays a crucial role in consumer perception of us and the sales of our products. The reputation of our “52TOYS” brand is also essential in maintaining and expanding business relationships with key stakeholders such as IP proprietors, distributors, suppliers and other business partners. Any damage to our brand reputation could have a material and adverse impact on our prospects, business, results of operations and financial condition.

More specifically, any negative publicity concerning our business, management, products, self-developed or licensed IPs, partners or industry could significantly undermine our brand reputation. Addressing such adverse publicity may necessitate the launch of defensive media campaigns or legal actions, leading to increased marketing and legal expenses and diverting management’s focus from core operations. Any counterfeit products or knockoffs may also infringe and undermine our brand reputation in general.

Our content-driven online marketing strategy relies on third-party social media platforms. In particular, our fans and the KOCs and influencers we work with may post contents relating to our products from time to time. We may fail to detect and prevent illegal or inappropriate content from being posted, which may incur regulatory investigations, legal liability, or removal from social media platforms. In addition, unfavorable publicity or negative news regarding us, our fans, the KOCs and influencers we work with, or our IP proprietors, or negative review on our brands and products could adversely affect our reputation.

In addition, we may encounter challenges in effectively enhancing brand recognition. Despite our efforts, there is no assurance that our brand promotion and marketing endeavors will resonate with our target audience and drive consumer engagement as anticipated. These challenges could have a material adverse impact on our future prospects, business, results of operations and financial condition.

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Our success is critically dependent on the creation process of our dedicated in-house artistic team, and the loss of designers, or our inability to attract and retain such designers and maintain our artistic team, could adversely affect our business.

Our success depends to a significant extent on the continued service and performance of our in-house artistic team, whose creative process is vital to our operations. As of December 31, 2024, our in-house design team consisted of 85 designers with extensive industry experience and deep understanding of toys, consumer goods and IP culture. We are dependent on their talents and believe they are integral to our strength in products. The loss of any member of our in-house artistic team could impair our ability to iterate products and could therefore have a material adverse effect on our business, financial condition and results of operations.

In addition, competition for talented designers is intense. We compete with many other potential employers in recruiting, hiring and retaining our innovative designers. Competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which would increase our operating costs.

If we are unable to maintain the strength of our innovative in-house artistic team, our competitive ability and our business may be adversely affected.

Our collaboration with external artists presents risks to our operations, including potential brand inconsistencies, misalignment with market demands, IP ownership disputes, termination of agreements and public perception.

Our collaboration with external artists plays a significant role in enhancing our creative offerings, but it presents risks that could affect our operations. If designs do not resonate with our target market, sales may be impacted. Furthermore, any negative publicity related to these artists could affect our brand reputation. Artists may desire substantial control over the creative process, which can complicate project management and execution. While their innovative designs contribute originality, they may not align with current market demands, posing challenges in balancing creativity with practicality. Particularly, some external artists with their own fan base could wield influence that can intensify scrutiny and pressure, making brand alignment more challenging. In addition, intellectual property ownership in collaborative projects with external artists creates operational risks. If ownership rights are not clearly defined, we may lose exclusive control over the designs, limiting our ability to commercialize or protect those assets. The termination or non-renewal of collaboration agreements could also disrupt our operations.

We generated a considerable portion of revenue from licensed IPs. We face various risks associated with our license agreements for IPs and our third-party IP proprietors and licensors, including the possibility of failing to obtain, maintain or renew licenses on favorable terms or at all, as well as the risk that our IP proprietors or licensors may fail to maintain and protect their IPs, which could adversely affect our business and results of operations.

In addition to proprietary IPs, we acquire IP licenses from third-party IP proprietors and licensors to develop our products. Sales of products based on these licensed IPs contributed to a considerable portion of our revenue during Track Record Period. In 2022, 2023 and 2024, the revenue from sale of products based on licensed IP was RMB232.6 million, RMB286.2 million and RMB406.4 million, respectively, accounting for 50.2%, 59.3% and 64.5% of our total revenue in the corresponding periods. If we fail to maintain a positive relationship with the third-party IP proprietors or licensors, our operations, business prospects and financial condition may be materially and adversely affected. While we aim to expand our IP portfolio by collaborating with a broader spectrum of IP proprietors or licensors, there remains risk that we may not secure licenses for IPs on favorable terms, if at all. In particular, growing popularity of IP toys may also intensify the competition for renowned IP among toy companies, which may further adversely affect our ability to obtain licenses from IP proprietors or licensors on favorable terms, if at all. The term of our license agreements is usually one to

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there years and is renewable upon mutual agreement. As such, there is no assurance that we will always be successful in renewing or maintaining our license agreements on similar terms, or at all. Furthermore, there is a risk that the IP proprietors or licensors may be involved in disputes relating to their IP rights and may inadequately maintain and protect their IP rights, potentially affecting our ability to utilize the licensed IPs. The inability to secure licenses on favorable terms, termination or non-renewal of license agreements, or failure of the IP proprietors or licensors to safeguard their IPs, could have a material and adverse impact on our business, results of operations and financial condition.

During the Track Record Period, we closed some brand stores due to our adjustment in the strategy of brand store deployment and the impact of COVID-19. We plan to establish new flagship stores and brand stores, but we cannot guarantee the success of our plan.

We closed some of our brand stores during the Track Record Period, primarily our adjustment in the strategy of brand store deployment and certain stores were negatively affected by the COVID-19 pandemic and the subsequent changes in the demographics of visitors in the shopping districts where such stores were located. These closures could harm our brand perception, reducing customer loyalty and sales. Without these direct points of contact, our ability to showcase and promote our products is challenged, risking impairment of our brand’s recognition and business growth. The limited presence of our physical stores might also strain our relationships with key stakeholders, such as distributors and suppliers, potentially disrupting our business network. Furthermore, we plan to set up more than 100 brand stores in select cities in China in the coming years. However, this entails significant capital investment, with no guarantees that the new store formats will outperform previous configurations. Any negative feedback or dissatisfaction stemming from these changes may tarnish our brand reputation. Addressing such feedback necessitates increased customer engagement efforts and may demand additional resources, potentially diverting management’s focus from enhancing and sustaining core business functions. These strategic adjustments could have a material adverse impact on our future prospects, business, results of operations and financial condition.

The proper functioning of our WeChat mini programs, mobile apps and websites is important to our online sales, membership retention and repurchase activities. Any failure to maintain the satisfactory performance will materially and adversely affect our business, reputation, financial condition and results of operations.

In utilizing digital platforms such as WeChat mini-programs and mobile apps for online sales and our official website for marketing activities, maintaining the satisfactory performance of these systems is critical to our business operations. These platforms are fundamental not only for generating online sales but also for strengthening our brand presence, executing targeted marketing campaigns, and engaging directly with customers. Disruptions to these platforms could negatively affect our ability to promote new products, run promotions effectively, and drive traffic to our offerings, thus hindering revenue generation and brand building. For online sales, these platforms ensure a seamless purchasing experience, from browsing to payment. Interruptions or technical issues could lead to lost sales, canceled orders or delays, harming revenue. As they also support membership retention and repurchases, any disruption could weaken customer experience, loyalty and repeat business. From a marketing perspective, these platforms help us engage with customers, monitor behaviors and adjust strategies. Downtime could delay campaigns, disrupt performance tracking and reduce customer engagement, impacting our competitiveness. Given the crucial role these platforms play in our business operations, any malfunction could negatively impact our business, financial condition and results of operations.

We are subject to various risks relating to Third-party Payment Arrangements.

During the Track Record Period, some of our distributors settled their payments through third-party payors (the “Third-party Payment Arrangements”). In 2022, 2023 and 2024, the aggregate amount of payments from third-party payors accounted for approximately 10.0%, 8.6% and 3.0% of our total revenue,

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respectively. See “Business—Our Customers—Third-party Payment Arrangements” for details. However, we remain vulnerable to risks relating to these arrangements. In the event of any claims or legal proceedings, whether civil or criminal, arising from third-party payors or their liquidators against us in respect of Third-party Payment Arrangements, we may incur significant financial and managerial costs to defend ourselves, which could materially and adversely affect our financial condition and results of operations.

Furthermore, as we have limited visibility over the source of funds used by third-party payors, we cannot rule out the possibility that such funds may be derived from illegal activities, including money laundering or other non-compliant sources. In the event that any Third-party Payment Arrangement is found to involve suspicious or unlawful funds, we may become subject to regulatory investigations, reputational harm or even legal liabilities. Additionally, relevant payments may be subject to freezing or clawback actions initiated by authorities or liquidators, which may disrupt our cash flow and adversely affect our financial condition, results of operations and business prospects.

Our collaborations with third-party partner factories for our products presents risks to our business. Failure in product quality control may adversely affect our business.

We collaborate with specialized third-party partner factories to manufacture all of our products. As a result, the loss or unavailability of one of our major partner factories, even temporarily, could have a negative impact on our business, financial condition and results of operations. While we believe that we have the ability to replace our partner factories if necessary, any such move may be time-consuming and costly. We may also be required to seek out additional factories in response to increased demand for our products, as our current partner factories may not have the capacity to increase production. If we fail to receive a material portion of the products made by our partner factories, or if we fail to shift partner factories, our sales and profitability could be significantly reduced.

We have implemented a quality control system in relation to raw materials, production process and finished products, and require our suppliers to be responsible for the manufacturing process to satisfy our selection criteria. See “Business—Manufacturing” and “Business—Raw Materials and Suppliers—Our Suppliers” for further details. Nevertheless, we may not have effective control over whether our third-party partner factories would strictly follow our specifications and instructions as to, for example, raw materials to be used in the production of our products. There are risks that one or more of our third-party partner factories will not comply with our requirements, and that we may not be able to discover such non-compliance immediately or at all. As such, the use of third-party partner factories may expose us to product liability claims, administration penalties, confiscation or destruction of certain products, the revocation of business license, or the imposition of other administrative or even criminal liabilities. If defective products are sold, it would result in damage to our reputation, product recall, consumer litigation and others that could materially and adversely affect our business.

We face various risks associated with our sale of externally procured products which could adversely affect our business and results of operations.

In 2022, 2023 and 2024, our revenue generated from sales of externally procured products amounted to RMB92.6 million, RMB62.2 million and RMB68.7 million, respectively, accounting for 20.0%, 12.9% and 10.8% of our total revenue in the same periods, respectively. Although third-party products represent a decreasing share of our revenue, risks associated with their sale remain.

The marketing and product innovation of third-party brand owners play a role in driving demand for the products we sell. A lack of responsiveness to evolving customer preferences by the brand owners may decrease demand for their products, which could in turn adversely affect our sales performance. The success of this portion of our business also depends on our relationships with third-party brand owners. Any negative developments in these relationships could affect our ability to source products on competitive

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terms, including pricing. If such challenges arise, they could impact the revenue and profit generated from third-party products. Furthermore, the ability to maintain and renew agreements with third-party brand owners is crucial to the continued sale of these products. Any failure to secure favorable terms, or to renew these agreements altogether, could pose risks to this portion of our business and may adversely impact our operations and financial performance.

We incurred net losses for the year of 2022, 2023 and 2024. Although we achieved adjusted profit in 2023 and 2024, we cannot assure that we will achieve profitability in the future.

We experienced significant increase in our revenue during the Track Record Period. However, investors should not view this as a reliable indicator of our future performance. Furthermore, we recorded net losses in 2022, 2023 and 2024 of RMB1.7 million, RMB71.9 million and RMB121.5 million, respectively. Although we achieved adjusted profit of RMB19.1 million and RMB32.0 million in 2023 and 2024, respectively, we cannot assure you that we will be able to maintain our growth or maintain profitability in the future. In addition to consumer preferences and market dynamics, our ability to sustain growth and profitability depends on our successful execution of our business strategy on various aspects, including:

- maintaining and enhancing the innovativeness and competitiveness of our IP toys;
- obtaining, expanding, maintaining and protecting our intellectual properties;
- developing or licensing new IPs to expand our IP portfolio;
- continuously and successfully launching new products;
- maintaining and enhancing brand recognition;
- maintaining and expanding our customer base, and nurturing a loyal and engaged fan community;
- marketing and promoting our products;
- managing relationships with third-party partner factories;
- expanding our market presence across existing and new sales channels;
- expanding our presence in China and overseas; and
- maintaining and expanding profit margins through sales growth and efficiency initiatives.

We expect to incur significant costs on marketing efforts, and some marketing campaigns may not achieve our expected results.

We operate in a highly competitive industry and we expect to incur substantial advertising and marketing expenditures and other resources to maintain and increase our brand recognition. Our marketing activities may not be well received by the market and may not result in the level of sales that we anticipate. We also may not be able to retain or recruit a sufficient number of experienced sales and marketing personnel, or to train newly hired sales and marketing personnel, which we believe is critical to implementing our sales and marketing strategies cost-effectively. Further, sales and marketing approaches and tools in China’s IP toy market are evolving rapidly. This requires us to continually enhance our sales and marketing approaches and experiment with new strategies to keep pace with industry developments and consumer preferences. Failure to engage in sales and marketing activities in a cost-effective manner and failure to achieve the anticipated results from our sales and marketing activities may reduce our market share, cause our revenues to decline, negatively impact our profitability, and materially harm our business, financial condition and results of operations.

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Furthermore, a number of the PRC laws and regulations regulate advertisement of products, including the Advertising Law of the PRC (中華人民共和國廣告法) and the Law of the PRC on the Protection of Customer Rights and Interests (中華人民共和國消費者權益保護法). Violation of these laws or regulations may result in penalties, such as fines, orders to cease dissemination of the advertisements, or orders to eliminate the influence of such advertisements, among others.

We are exposed to inventory management risks and may face inventory excess, obsolescence, impairment or shortage.

Our inventories mainly include raw materials, finished goods and goods shipped in transit. As of December 31, 2022, 2023 and 2024, we had inventories of RMB123.7 million, RMB84.4 million and RMB154.4 million, respectively. Our inventory turnover days for 2022, 2023 and 2024 were 150 days, 132 days and 115 days, respectively. See “Financial Information—Selected Items from Consolidated Statements of Financial Position—Inventories.” We maintain sufficient inventory levels to ensure our product demand can be met, while avoiding excess inventory. Failure to forecast consumer demand or respond to any unexpected event negatively affecting the sales of our products could expose us to inventory obsolescence or result in a decline in inventory value or inventory write-downs. On the other hand, inaccurate sales forecast or insufficient production capacity at our partner factories may lead to inventory shortage and result in our inability to meet market demand for our products and satisfy orders from our sales partners. Failure in managing our inventory could have a material and adverse impact on our business, results of operations and financial condition.

We may be exposed to impairment loss risks associated with our other receivables and prepayments.

As of December 31, 2022, 2023 and 2024, we recorded other receivables and prepayments of RMB36.4 million, RMB22.7 million and RMB26.2 million, respectively. Our other receivables and prepayments primarily consisted of prepayments to suppliers, rental deposits, right to returned goods and deferred share issue costs for [REDACTED]. See “Financial Information—Selected Items from Consolidated Statements of Financial Position—Other Receivables and Prepayments” for details. If we incur any material impairment losses on our other receivables and prepayments, our financial positions and results of operation may be materially and adversely affected.

We may be exposed to credit risk due to customer defaults.

We sometimes grant credit terms to some of our distributors ranging from 15 to 30 days. As of December 31, 2022, 2023 and 2024, our trade receivables were RMB20.4 million, RMB38.6 million and RMB51.7 million, respectively. In 2022, 2023 and 2024, our trade and notes receivables turnover days were 34 days, 23 days and 26 days, respectively. As of December 31, 2022, 2023 and 2024, we made allowances for credit losses of trade receivables of RMB2.8 million, RMB2.4 million and RMB4.1 million, respectively. Our management regularly reviews the recoverability of trade receivables using the expected credit loss model. See Note 23 to the Accountant’s Report in Appendix I to this Document. In the event that our customers experience financial distress or are unable to settle their payments due to us in a timely manners or at all, our results of operations and financial condition may be materially and adversely affected. Delays or defaults in payments from customers or delayed billing process may adversely affect our ability to satisfy working capital requirements, and in turn increase our working capital needs.

We are exposed to risks associated with the fair value change in financial liabilities at fair value through profit or loss and valuation uncertainty regarding the use of unobservable inputs.

In 2022, we recorded net gains on financial liabilities at fair value through profit or loss (“FVTPL”) of RMB64.3 million. We recorded net losses on financial liabilities at FVTPL of RMB91.0 million and RMB152.4 million in 2023 and 2024, respectively. We determine the fair value of the financial liabilities with the assistance of qualified valuer to establish the appropriate valuation techniques and inputs to the

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model. See Note 31 and 39 to the Accountant’s Report in Appendix I to this Document. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. Given the inherent uncertainties associated with such measurement, the fair value of the financial liabilities is subject to various variations, adjustments and alterations, as well as market conditions and other factors. Changes in the value of our financial liabilities at FVTPL may materially and adversely affect our financial condition and results of operations.

We recorded net operating cash outflow in 2024, which could impact our ability to fully execute our strategic plans for direct and targeted sales channel expansion.

We had net operating cash inflows of RMB45.6 million and RMB109.5 million in 2022 and 2023, respectively, and net operating cash outflow of RMB8.3 million in 2024. We cannot assure you that we will be able to maintain robust cash flow from operating activities. Despite these inflows, the recent cash outflow may limit our ability to execute all of our strategic plans with optimal efficiency. This constraint poses challenges in promptly investing in new ventures, acquiring necessary resources and accelerating marketing efforts. Furthermore, 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, which could have a material and adverse impact on our business, results of operations and financial condition.

We recorded net liabilities and net current liabilities during Track Record Period. We cannot assure you that we will not experience net liabilities or net current liabilities in the future, which could expose us to liquidity risk.

Primarily affected by certain non-operating items, such as financial liabilities at FVTPL, we recorded net liabilities of RMB258.1 million, RMB330.0 million and RMB449.3 million as of December 31, 2022, 2023 and 2024, respectively. In addition, we had net current liabilities of RMB403.4 million and RMB541.7 million as of December 31, 2023 and 2024. For details, see “Financial Information—Liquidity and Capital Resources—Net Current Assets/Liabilities.” We cannot assure you that we will not record net liabilities or net current liabilities in the future. Net current liabilities may expose us to liquidity risks and constrain our operational flexibility. If we experience a shortfall in cash flow generated from operations, our liquidity position may be materially and adversely affected, which may, in turn, adversely affect our results of operations and financial position. Moreover, if we do not have sufficient working capital to meet future financial needs, we may need to resort to external financing. Our inability to obtain additional external borrowings timely or on acceptable terms may negatively impact our development and expansion plans, and consequently, our businesses, financial positions and results of operations may be materially and adversely affected.

We are exposed to risks relating to warehousing and third-party logistics service providers.

Significant disruption to the operation of our 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 disruptions in warehousing could also result in a loss of sales. Furthermore, we may fail to secure the lease agreement of our warehouses on favorable terms, or at all. Any of these events could have a material and adverse impact on our business, results of operations and financial condition.

During the Track Record Period, we engaged independent third-party logistics service providers to transport our products from partner factories to our warehouses and/or 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

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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 negatively impact our brand image and reputation. Any of these events could have a material and adverse impact on our business, results of operations and financial condition.

Our success depends on our ability to operate our business without infringing, misappropriating or otherwise violating the trademarks, copyrights, trade secrets, know-how, patents and other proprietary rights of third parties.

We cannot assure you that our business practices do not and will not infringe, misappropriate or otherwise violate any trademarks, copyrights, trade secrets, know-how, patents and other proprietary rights of third parties, given the uncertainties inherent in the scope of certain trademarks, copyrights, trade secrets, know-how, patents and other proprietary rights. Intellectual property related litigation is usually complex and the results of such 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 intellectual property-related litigation. Third parties may claim that our products or activities infringe, misappropriate or otherwise violate their trademarks, copyrights, trade secrets, know-how, patents 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 trademarks, copyrights, trade secrets, know-how, patents 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. In addition, any allegation of infringement of the intellectual property rights of others, even if unfounded, could damage our reputation and tarnish our brand image. Furthermore, our use of the disputed intellectual properties may be restricted, which could disrupt our operations. Occurrence of any of these incidents could have a material and adverse impact on our business, results of operations and financial condition.

We face challenges with regard to changes in existing laws, regulations, or policies governing our industry and business, the imposition of new laws, regulations, or policies, or new interpretations thereof.

We are subject to laws, regulations and policies governing the toy industry in countries where we have operations. 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 Product Quality Law of the People’s Republic of China (2018 Revision) (《中華人民共和國產品質量法 (2018修正)》). See “Regulatory Overview—Regulations on IP Toys—Regulations on Products Quality and Liability.” 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 higher compliance costs on our business and face challenges in launching 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. More specifically, on June 8, 2023, the SAMR promulgated the Blind Boxes Guidelines (《盲盒經營行為規範指引》). The interpretation and enforcement of such newly promulgated guidelines can be evolving, which could lead to a material and adverse impact on our prospects, business, results of operations and financial condition.

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. Their non-compliance may not only require us to terminate our collaboration with them but could also harm our reputation, which could have a material and adverse impact on our business, results of operations and financial condition.

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We are subject to risks associated with international trade policies, geopolitics and trade protection measures, tariffs, and our business, financial condition and results of operations could be adversely affected.

Our operations may be negatively affected by any deterioration in the political and economic relations among countries. For example, we may be materially and adversely affected by export controls and other geopolitical challenges, including, but not limited to, economic and labor conditions, increased tariffs, duties, taxes and other costs and political instability. Furthermore, concerns over inflation, energy costs, geopolitical frictions, capital market volatility and liquidity issues may create difficult operating condition in the future.

Significant political, trade or regulatory developments in the jurisdictions where we operate, such as those resulting from the current U.S. government, are difficult to predict and may affect us. Similarly, changes in U.S. policy could give rise to circumstances affecting our business operations, including economic downturns and geopolitical events. Changes in U.S. government policy have affected and may continue to affect, among other things, the U.S. and global economy, trade relations, the regulatory environment, inflation and other areas.

Our business may also be significantly impacted by the imposition of tariffs by the U.S. and any resulting retaliatory tariffs in the countries in which we operate. The U.S. introduced a series of tariffs in early 2025, targeting imports from China and other regions. Significant tariffs were imposed starting February 2025, followed by further measures. These measures prompted reciprocal tariffs from China and other countermeasures. However, as of the Latest Practicable Date, the U.S. and China reached an agreement to temporarily defer the implementation of new tariff measures for at least 90 days. In 2022, 2023 and 2024, our revenue generated from the U.S. market accounting for 1.7%, 3.7% and 3.3% of our total revenue, respectively. There is significant uncertainty on how this matter will evolve, and any rising political tensions, as well as increases in tariffs or changes to trade policies between the U.S. and China, may have an impact on our business. As of the Latest Practicable Date, the impacts of the increased tariffs by the U.S. and the countermeasures taken by China on our business operations were limited. However, the uncertainty surrounding potential changes in U.S. trade policies, particularly regarding tariffs on Chinese imports, could adversely affect our business operations and financial performance. Any substantial increases in tariffs or trade restrictions implemented by the U.S. administration could lead to retaliatory measures by China, potentially disrupting global supply chains. If we are unable to successfully manage the impact and the increased costs resulting from the increased tariffs, our business, financial condition and results of operations could be materially and adversely affected.

We are subject to environmental protection, health and safety-related laws and regulations. Changes in these laws and regulations may cause us to incur additional compliance costs, and any non-compliance with these laws and regulations could lead to imposition of fines and penalties and harm our business.

Our operations, particularly our products, raw materials and warehousing, are subject to laws and regulations in relation to environmental protection, health and safety. In particular, we are required to adhere to applicable fire safety requirement for our warehouses. We may incur ongoing compliance costs and incur additional compliance costs for changes in these laws and regulations. Failure to comply with any existing and future environmental protection, health and safety-related laws and regulations could subject us to liabilities, such as monetary damages and fines. Our cost of complying with relevant current and future regulations, and liabilities which may potentially arise, or any non-compliance thereof, could have a material and adverse impact on our business, results of operations and financial condition.

Furthermore, with increasing awareness on environmental protection, there has been an increasing public scrutiny in reducing the use of plastics and other non-recyclable materials in various industries. In response, we may need to devote substantial resources in developing or identifying alternative raw materials, and our research or development expenses or costs of our raw materials may increase, which in

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turn could have a material and adverse impact on our business, results of operations and financial condition. On the other hand, failure to respond to the increasing awareness on environmental protection and public scrutiny on the raw materials we use may damage our brand perception. This may result in our brands and products being less appealing to consumers, which in turn could have a material and adverse impact on our future prospects, business, results of operations and financial condition. Any environmental protection, health and safety issues at our partner factories may also damage our reputation in addition to disruption of production activities as discussed in “— Our collaborations with third-party partner factories for our products presents risks to our business. Failure in product quality control may adversely affect our business”.

We face risks in relation to inability to obtain and maintain the approvals, licenses and permits required for our operations.

We are required to maintain various approvals, licenses and permits in order to operate our business. These approvals, licenses and permits are granted upon satisfactory compliance with, among other things, the applicable laws and regulations. Also, they may be valid only for a fixed period of time and subject to renewal and accreditation.

We may experience difficulties, delays or failures in obtaining the necessary approvals, licenses and permits for our businesses. In addition, there can be no assurance that we will be able to obtain or renew all of the approvals, licenses and permits required for our existing business operations in a timely manner, or at all. If we fail to obtain and/or maintain required approvals, licenses or permits, our ongoing business could be interrupted, and our expansion plan may be delayed.

Complying with government regulations may require substantial expenses, and any non-compliance may expose us to liability. In case of any non-compliance, we may have to incur significant expenses, and divert substantial management time and resources to resolving any deficiencies. We may also experience negative publicity arising from such deficiencies, which could have a material and adverse impact on our business, results of operations and financial condition.

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, 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.

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

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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 impact on our business, results of operations and financial condition.

We may fail to comply with the laws and regulations relating to cybersecurity and data privacy and protection may subject us to legal or administrative proceedings.

We have access to and collect transactional information from certain consumers through online channels. Accordingly, our business operations are subject to various cybersecurity and data privacy and protection laws, such as the Revised Cybersecurity Review Measures (《網絡安全審查辦法》), Administration Regulations on Cyber Data Security (《網絡數據安全管理條例》) (the “Data Security Regulations”), the Data Security Law of the PRC (《中華人民共和國數據安全法》) (the “Data Security Law”), the Provisions on Promoting and Regulating Cross-Border Data Flow (《促進和規範數據跨境流動規定》) and the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》) (the “Personal Information Protection Law”). See “Regulatory Overview—Regulations on Online Business and Data Compliance—Regulations on Cybersecurity and Data Privacy and Protection.” There might be changes from time to time regarding the interpretation and application of the laws and regulations regarding cybersecurity and data privacy and protection as they are generally complex and evolving. In addition, we may be subject to additional regulatory requirements regarding cybersecurity and data privacy and protection, which may necessitate adjustments to our data protection framework and incur additional costs. Any failure or perceived failure of us to comply with cybersecurity and 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 cybersecurity and data privacy and protection 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 liability, and have a material and adverse impact on our business, results of operations and financial condition.

On December 28, 2021, the Cyberspace Administration of China (the “CAC”), together with other relevant administrative departments, jointly promulgated the Revised Cybersecurity Review Measures with effect from February 15, 2022, according to which an online platform operator who possesses personal information of over one million users and intends for listing in a foreign country must be subject to the cybersecurity review. In the meantime, the Revised Cybersecurity Review Measures grant the governmental authorities the discretion to initiate a cybersecurity review on any data processing activity if they deem such activity affects or may affect national security. On September 24, 2024, the State Council promulgated the Data Security Regulations, which reiterate that the cyber data processors which may possibly affect national security shall apply for cybersecurity review. As of the Latest Practicable Date, we have not received any notice from the CAC of a cybersecurity review on us under the Revised Cybersecurity Review Measures. However, we cannot rule out the possibility that we will trigger the cybersecurity review in the future. If we are subject to cybersecurity review, we may incur significant costs and face challenges, both in the review process and in making enhancements to our cybersecurity measures that may be required.

PRC regulatory authorities have also enhanced the supervision and regulation of cross-border data transmission. The Data Security Law which took effect in September 2021 prohibits entities and individuals in China from providing any foreign judicial or law enforcement authority with any data stored in China without approval from competent PRC authority, and sets forth the legal liabilities of entities and individuals found to be in violation of their data protection obligations, including rectification order, warning, fines, suspension of relevant business, and revocation of business permits or licenses. Moreover, the Provisions on Promoting and Regulating Cross-Border Data Flow and the Guidelines for Application for Security Assessment of Outbound Data Transfer (Second Edition) promulgated by the CAC came into effect on March 22, 2024. According to the provisions and the guidelines, data processors are subject to security assessments conducted by the CAC prior to any cross-border transfers of important data and personal information, if falling under any of the following circumstances: (i) where the critical information

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infrastructure operator intends to provide important data or personal information overseas; (ii) where the data processor other than critical information infrastructure operators intends to provide important data overseas; (iii) where the data processor other than critical information infrastructure operators, who has provided personal information (excluding sensitive personal information) of at least one million individuals or sensitive personal information of at least 10,000 individuals to overseas recipients accumulatively since January 1 of any given calendar year, intends to provide personal information overseas; and (iv) other circumstances where the security assessment of cross-border data transfer is required as prescribed by the CAC. See “Regulatory Overview—Regulations on Online Business and Data Compliance—Regulations on Cybersecurity and Data Privacy and Protection.” We have implemented control procedures to comply with the new requirements. Complying with PRC laws and regulations relating to cross-border data transmission increases our compliance costs and could affect our ability to transfer data across borders. As of the Latest Practicable Date, we have not been involved in cross-border data transmission during our daily business operations.

Our business depends on the continuing efforts of our key personnel performing vital functions.

Our business operations depend on the continuing efforts of our management, particularly the members of our senior management team. 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, members of our management may join a competitor or form a competing company. There can be 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, which in turn could have a material and adverse impact on our future prospects, business, results of operations and financial condition.

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

Our business operations and reputation are significantly influenced by the conduct of our employees, business partners, their employees and other related individuals. Despite our efforts to implement stringent oversight mechanisms and ethical guidelines, it may not always be possible to prevent or detect misconduct by these individuals. 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.

Engaging third parties to administer social insurance contributions in different locations may result in regulatory penalties.

During the Track Record Period, a minimal number of our employees had their social insurance and housing provident fund contributions processed by human resource agencies due to discrepancies between their actual work locations and the locations of their contract-signing entities. According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》), employers must make timely and full contributions to employees’ social insurance and housing provident funds under employers’ own accounts. If third-party human resources agencies engaged by employers fail to make such contributions on behalf of employees as required, or if the validity of such arrangements is challenged by PRC authorities, employers may be ordered to rectify the situation by paying the contributions under employers’ own account and subject to late payment fees and/or penalties imposed by the relevant authorities. During the Track Record Period, we had not received any notifications from the relevant PRC authorities requiring us to rectify such arrangements or imposing any administrative penalties, nor were we aware of any employee complaints or labor disputes in

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connection with such arrangements. As advised by our PRC Legal Advisors, the risk of our being imposed of fines is remote provided that we rectify any non-compliance promptly upon notice. However, we cannot assure you that the relevant authorities will not impose additional compliance requirements or penalties in the future.

We may be subject to risks in relation to our leased properties.

We currently lease several premises in China. Under the PRC laws and regulations, lease agreements in general are required to be registered with the local land and real estate administration bureau. As of the Latest Practicable Date, the lease agreements for 13 of our 14 leased properties in China had not been registered with the relevant PRC government authorities. Although failure to do so does not in itself invalidate the leases, we may be subject to fines if we fail to rectify such non-compliance within the prescribed time frame after receiving notice from the relevant PRC government authorities. The penalty ranges from RMB1,000 to RMB10,000 for each unregistered lease, at the discretion of the relevant authority.

If we receive notice from the relevant PRC government authorities requiring us to complete the registration within the prescribed time frame and if we fail to do so, the maximum aggregate amount of potential administrative penalties we would be subject to is RMB130,000. In the event that any fine is imposed on us for our failure to register our lease agreements, we may not be able to recover such losses from the lessors. In addition, as of the Latest Practicable Date, the lessors of seven of the leased premises, which are mainly used as brand stores and office, had not provided copies of the real property title certificates to us. Our leases may be affected, and we may be required to vacate the relevant properties and relocate our brand stores and offices. In this event, our operation on such properties may be impaired and we may not be adequately indemnified by the lessors for our related losses. Also, we will incur additional costs in relocating our brand stores or offices to other suitable sites, thus affecting our business operations, financial condition and results of operations.

We may from time to time become a party to litigation, other legal and contractual disputes, claims and administrative proceedings.

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, 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 have a material and adverse impact on our business, results of operations and financial condition.

We may make acquisitions, establish joint ventures and conduct other strategic investments, which may not be successful.

To further expand our business and strengthen our market position, we may form strategic cooperation or make strategic investments and acquisitions to fuel business growth. Acquisitions involve numerous risks, including difficulties in integrating the operations and personnel of the acquired companies, distraction of management from overseeing our existing operations, difficulties in executing new business initiatives, entering markets or lines of business in which we have no or limited direct prior experience, the possible loss of key employees and customers and difficulties in achieving the synergies we anticipated or

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levels of revenue, profitability, productivity or other benefits we expected. These transactions may also cause us to (i) significantly increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition or investment, (ii) issue Shares that would dilute our current Shareholders’ percentage ownership, or (iii) incur asset write-offs and restructuring costs and other related expenses. Acquisitions, joint ventures and strategic investments involve numerous other risks, including potential exposure to unknown liabilities of acquired or investee companies and restrictions under regulations relating to anti-monopoly. There can be no assurance that our acquisitions, joint ventures and other strategic investments will be successful and will not have a material and adverse impact on our business, results of operations and financial condition.

We are subject to the risks associated with force majeure events, natural disasters, public health incidents, acts of war, terrorism or other factors beyond our control.

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 impact on our business, results of operations and financial condition.

For example, during the Track Record Period, the spread of COVID-19, caused unprecedented disruptions to the global economy and normal business operations across sectors and countries. As a result, our business operations were adversely affected.

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 compensations.

We adopted the Employee Incentive Scheme. See “Appendix VI—Statutory and General Information—D. Employee Incentive Scheme.” In 2022, 2023 and 2024, we recorded share-based payments of RMB9.2 million, nil and nil, respectively. To further incentivize our employees, we may adopt other equity incentive plans and award additional equity incentives in the future. Issuance of Shares with respect to our equity incentive plan may dilute the shareholding of our existing Shareholders and incur substantial share-based payments that could have a material and adverse impact on our results of operations.

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

The fluctuations in value of RMB against the Hong Kong dollar, the U.S. dollar and other currencies are subject to changes resulting from the PRC government’s policies and depend to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the RMB and the Hong Kong dollar, the U.S. dollar or other currencies in the future.

The [REDACTED] from the [REDACTED] will be received in Hong Kong dollars and we expect a substantial portion of which to be spent in RMB. As a result, any appreciation of the RMB against the Hong Kong dollar may result in the decrease in the value of our [REDACTED] from the [REDACTED]. Conversely, any depreciation of the RMB against the Hong Kong dollars may adversely affect the value of, and any

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dividends payable on, the Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. All of these factors could have a material and adverse impact on our business, results of operations and financial condition.

RISKS RELATING TO DOING BUSINESS IN THE COUNTRIES WHERE WE OPERATE

Changes in economic, political and social conditions, as well as government policies, laws and regulations, and industry practice guidelines in the jurisdictions where we operate could have a material and adverse effect on our business, financial conditions, results of operations and prospects.

Our business, financial conditions and results of operations may be influenced by the general political, economic and social conditions in the country where we operate. Governments worldwide have implemented, and may continue to introduce, among others, various policies and measures to encourage the economic growth and guide the allocation of resources. The IP toy industry in general is affected by macro-economic factors, including international, national, regional and local economic conditions, trade relationships, employment levels, consumer demand and discretionary spending. Any changes in these factors may have a material and adverse effect on our business, financial condition and results of operations.

As we have expanded internationally into key markets such as Southeast Asia, Japan & South Korea and North America, we are exposed to diverse regulatory environments and macroeconomic volatility. In particular, we achieved notable success in the Thai and Japanese markets in 2024. However, there is no guarantee that we can sustain our current revenue growth in overseas markets in the future due to a variety of factors, such as regulatory changes, stringent consumer protection laws, high compliance standards and fluctuating trade policies.

Changes in currency conversion policies may adversely affect the value of your investment.

We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments of operating costs and expenses and payments of dividends declared in respect of our H Shares, if any. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy our foreign currency-denominated obligations. Under existing PRC foreign exchange regulations, the foreign exchange expenditure under the current items shall be paid by an institution with its self-owned foreign exchange upon valid documents or with the foreign exchange purchased from any financial institution operating the foreign exchange sale or settlement business in accordance with the administrative provisions of the foreign exchange administrative department of the State Council on the payment and purchase of foreign exchange. In addition, the foreign exchange expenditure under the capital items shall be paid by an institution with its self-owned foreign exchange upon valid documents or with the foreign exchange purchased from any financial institution operating the foreign exchange sale or settlement business in accordance with the administrative provisions of the foreign exchange administrative department of the State Council on the payment and purchase of foreign exchange. If the administrative provisions require the approval of a foreign exchange administrative organ, the approval must be obtained before making foreign exchange payments. According to relevant foreign exchange rules, where any material imbalance in international receipts and payments occurs or may occur, the PRC government may implement necessary safeguards and other measures. There can be no assurance that regulations regarding the remittance of RMB into or out of the PRC will not change in the future.

Our operations are subject to PRC tax laws and regulations.

We are subject to periodic examinations on fulfillment of our tax obligation under the PRC tax laws and regulations by PRC tax authorities. We cannot assure you that future examinations by PRC tax authorities would not result in fines, other penalties or actions that could materially and adversely affect our business, financial performance and results of operations.

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Holders of our H Shares may be subject to income tax obligations in China.

Under the current tax laws and regulations in China, non-Chinese resident individuals and non-Chinese resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us and the gains realized upon the sale or other disposition of our H Shares.

Non-Chinese resident individuals are required to pay individual income tax at a rate of 20% under IIT law for the interests, dividends and bonuses they obtain from China. Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdiction in which the foreign individual resides reduce or provide an exemption for the relevant tax obligations. Generally, in accordance with the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 issued by the SAT (《國家稅務總局關於國稅發 [1993]045號文件廢止後有關個人所得稅徵管問題的通知》), when a tax rate of 10% is not applicable, the withholding company shall: (i) return the excess tax amount pursuant to due procedures if the applicable tax rate is lower than 10%; (ii) withhold such foreign individual income tax at the effective tax rate agreed on if the applicable tax rate is between 10% and 20%; or (iii) withhold such foreign individual income tax at a rate of 20% if no taxation treaty is applicable.

For non Chinese-resident enterprises that do not have establishments or premises in China, and for those who have establishments or premises in China but whose income is not related to such establishments or premises under the EIT law, dividends paid by us and gains realized by such foreign enterprises upon the sale or other disposition of Shares are ordinarily subject to China enterprise income tax at a rate of 20%. In accordance with the Circular on Issues Relating to the Withholding of Enterprise Income Tax by Chinese Resident Enterprises on Dividends Paid to Overseas Non-Chinese Resident Enterprise Shareholders of H Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) issued by the SAT, such tax rate has been reduced to 10%.

If there is any change to applicable tax laws and regulations or in the interpretation or application of such laws and regulations, the value of your [REDACTED] in our H Shares may be materially affected.

Payment of dividends is subject to laws and regulations in the PRC.

Under the PRC laws, dividends may be paid only out of distributable profits. Our distributable profits represent our distributable net profits less appropriations to statutory surplus reserve, general reserve, and discretionary surplus reserve (as approved by our Shareholders’ meeting). Our distributable net profit represents the lowest of (i) our net profit attributable to our equity holders for a period plus distributable profits or net of accumulated losses, if any, at the beginning of such period, as determined under PRC GAAP, and (ii) our net profit attributable to our equity holders for the period plus distributable profits or net of accumulated losses, if any, at the beginning of such period, as determined under IFRS Accounting Standards. As a result, we may not have sufficient distributable profits to make dividend distributions to our Shareholders in the future, including in respect of periods where we register an accounting profit. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

[REDACTED] may experience difficulties in effecting service of legal process and enforcing judgments against us and our Directors, Supervisors and senior management.

Substantially all of our assets are located in China and the majority of our executive Directors and senior management reside in China. Therefore, it may be difficult for [REDACTED] to directly effect service of legal process within Hong Kong or elsewhere outside of China upon us or our Directors or senior management.

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On July 3, 2008, the Supreme People’s Court of the PRC promulgated the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters Under Party-Agreed Jurisdiction by the Courts of the Mainland and the Hong Kong Special Administrative Region (《最高人民法院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》) (“Arrangement”), which came into effect on August 1, 2008. Pursuant to the Arrangement, a party with an enforceable final court judgment rendered by any designated Mainland court or any designated Hong Kong Special Administrative Region court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the relevant Mainland court or Hong Kong Special Administrative Region court. Similarly, a party with an enforceable final judgment rendered by a Mainland 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 such judgment in Courts of the Hong Kong Special Administrative Region. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement, in which a Hong Kong Special Administrative Region court or a Mainland court is expressly identified as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a Hong Kong Special Administrative Region court’s verdict in mainland China if the parties to the dispute did not agree to a written choice of court agreement. On January 25, 2024, the Supreme People’s Court of the PRC promulgated 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 “New Arrangement”), which seeks to establish a bilateral legal mechanism that provides clarity and certainty for the recognition and enforcement of judgments in a wider range of civil and commercial matters between mainland China and Hong Kong Special Administrative Region, based on criteria other than a written choice of court agreement. The Arrangement was superseded upon the effectiveness of the New Arrangement on January 29, 2024 but remained applicable to a “written choice of court agreement” entered into before the New Arrangement taking effect. However, there can be no assurance that all final judgments will be recognized and effectively enforced by the relevant courts.

RISKS RELATING TO THE [REDACTED]

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

Prior to the completion of the [REDACTED], there has been no public market for our H Shares. We have applied to the Stock Exchange for the listing of, and permission to deal in, our H Shares. However, there can be no assurance that an active [REDACTED] market for our H Shares will develop or be sustained after completion of the [REDACTED]. Pursuant to applicable PRC laws, all of the Shares in issue as of the date of this document will be subject to a lock-up period of one year from the [REDACTED]. If an active public market for our H Shares does not develop following completion of the [REDACTED], the market price and liquidity of our H Shares could be materially and adversely affected. The [REDACTED] is the result of negotiations between our Company and the [REDACTED] (for themselves and on behalf of the [REDACTED]), which may differ significantly from the market price at which our H Shares will be traded following completion of the [REDACTED]. The market price of our H Shares may drop below the [REDACTED] at any time after completion of the [REDACTED].

The price and [REDACTED] volume of our H Shares may be volatile, which could result in substantial losses to you.

The price and [REDACTED] volume of our H Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. The performance and fluctuation of the market prices of other companies engaging in similar business may also affect the volatility in the price of and [REDACTED] volumes for our H Shares. In addition to market and industry factors, the price and [REDACTED] volume of our

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H Shares may be highly volatile for specific business reasons, such as fluctuations in our revenue, earnings, cash flows, investments, 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 have experienced price volatility in the past, and it is possible that our H Shares may be subject to changes in price not directly related to our performance.

There will be a gap between pricing and [REDACTED] of our H Shares, and the price of our Shares when [REDACTED] begins could be lower than the [REDACTED].

The initial price to the public of our H Shares sold in the [REDACTED] is expected to be determined on the [REDACTED]. However, the H Shares will not commence [REDACTED] on the Stock Exchange until they are delivered. As a result, investors may not be able to sell or otherwise deal in the H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of the H Shares when [REDACTED] begins could be lower than the [REDACTED] as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time [REDACTED] begins.

A future or perceived significant increase in the supply of our H Shares in public markets could cause the market price of our H Shares to decrease significantly, and dilute shareholdings of holders of H Shares.

The market price of our H Shares could decline as a result of future sales of a substantial number of our H Shares or other securities relating to our H Shares in the public market, or the issuance of new shares or other securities, or the perception that such sales or issuances may occur. Future sales, or anticipated sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital at a specific time and on terms favorable to us. In addition, our Shareholders may experience dilution in their holdings if we issue more securities in the future. New shares or shares-linked securities issued by us may also confer rights and privileges that take priority over those conferred by the H Shares.

You will incur immediate and substantial dilution and may experience further dilution if we issue additional Shares in the future.

The [REDACTED] of our H Shares is higher than the net tangible asset value per Share immediately prior to the [REDACTED]. Therefore, purchasers of our H Shares in the [REDACTED] will experience an immediate dilution in pro forma consolidated net tangible asset value. To expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our H Shares may experience dilution in the net tangible asset value per Share of their H Shares if we issue additional Shares in the future at a price that is lower than the net tangible asset value per Share at that time.

There can be no assurance that we will declare and distribute any amount of dividends in the future.

No dividends have been paid or declared by our Company during the Track Record Period, and there can be no assurance that we will declare and distribute any amount of dividends in the future. The declaration, payment and amount of any future dividends are subject to the discretion of our Directors, after taking into account our results of operations, financial conditions, cash requirements and availability and other factors as they may deem relevant, and subject to the approval at a Shareholders’ meeting. We may not have sufficient or any profits to enable us to distribute dividends to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable.

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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 expert reports, contained in this document.

This Document, particularly the sections headed “Business” and “Industry Overview,” contains information and statistics relating to the IP toy market. Such information and statistics have been derived from a third-party report commissioned by us and 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. The information has not been independently verified by us, the Joint Sponsors, [REDACTED] or any other party involved in the [REDACTED], and no representation is given as to its accuracy. 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 included in this Document 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. You should consider carefully the importance placed on such information or statistics.

You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the [REDACTED].

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the [REDACTED]. Prior to the publication of this document, there has been press and media coverage regarding us and the [REDACTED]. Such press and media coverage may include references to certain information that does not appear in this document, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this Document, we disclaim responsibility for it and you should not rely on such information.

WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

In preparation for the Listing, our Group has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and exemption from strict compliance with the relevant provisions of the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rules 8.12 and 19A.15 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong and, in normal circumstances, at least two of the issuer’s executive directors must be ordinarily resident in Hong Kong.

Currently, all of our executive Directors reside in the PRC and for the future will not be ordinarily resident in Hong Kong. Since most of our Group’s core business operations are based, managed and conducted outside of Hong Kong, our Group does not have, and in the foreseeable future will not have, a sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rules 8.12 and 19A.15 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for[, and the Stock Exchange has granted us,] a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules subject to, among others, the following conditions:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed two authorized representatives (the “Authorized Representatives”), Mr. Chen, our executive Director, chairman of the Board, chief executive officer and general manager, and Ms. Lau Yee Wa, one of our joint company secretaries, who will act as our Company’s principal channel of communication with the Stock Exchange. Each of our Authorized Representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and/or email (where available). Each of our Authorized Representatives is authorized to communicate on our behalf with the Stock Exchange;
- (b) both of our Authorized Representatives have means to contact all our Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. Our Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required. Each of our Directors has provided his/her respective mobile phone numbers, office phone numbers, fax numbers and/or email addresses (where available) to our Authorized Representatives. In the event that a Director expects to travel, he/she will endeavor to provide the phone number of the place of his/her accommodation to our Authorized Representatives or maintain an open line of communication via his/her mobile phone. Each of our Directors and Authorized Representatives has provided his/her mobile phone numbers, office phone numbers, fax numbers and/or email addresses (where available) to the Stock Exchange;
- (c) pursuant to Rule 3A.19 of the Listing Rules, we have appointed Somerley Capital Limited as our compliance advisor (the “Compliance Advisor”), which shall have access at all times to our Authorized Representatives, Directors, Supervisors, senior management and other officers of our Company, and will act as an additional channel of communication between the Stock Exchange and us; and
- (d) meetings between the Stock Exchange and our Directors could be arranged through our Authorized Representatives or the Compliance Advisor, or directly with our Directors within a reasonable time frame. We will promptly inform the Stock Exchange of any changes of our Authorized Representatives and/or the Compliance Advisor.

JOINT COMPANY SECRETARIES

According to Rules 3.28 and 8.17 of the Listing Rules and Chapter 3.10 of the Guide issued by the Stock Exchange, the secretary of an issuer must be a person who has the requisite knowledge and

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experience to discharge the functions of the company secretary and is either (i) a member of the Hong Kong Chartered Governance Institute, a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong) or a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong); or (ii) 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 a company secretary.

According to Chapter 3.10 of the Guide, the waiver under Rule 3.28 of the Listing Rules will be granted for a fixed period of time, but in any case, will not exceed three years from the [REDACTED] (the “Waiver Period”) and on the conditions that (i) the company secretary in question must be assisted by a person who possesses the qualifications or experience as required under Rule 3.28 and is appointed as a joint company secretary throughout the Waiver Period; and (ii) the waiver can be revoked if there are material breaches of the Listing Rules by our Company.

We have appointed Ms. Yu Sichen (于思晨) (“Ms. Yu”) and Ms. Lau Yee Wa (劉綺華) (“Ms. Lau”) as our joint company secretaries. Ms. Yu joined our Group as our head of investment and financing department in November 2024, where she has been primarily responsible for the corporate governance, investor relations, and financing and capital market matters of our Group. Our Directors are of the view that, having regard to Ms. Yu’s thorough understanding of the overall business operations and corporate governance matters of our Group, she is considered as a suitable person to act as a company secretary of our Company. In addition, as our headquarters and principal business operations are substantially based and conducted in the PRC, our Directors believe that it is necessary to appoint Ms. Yu as a company secretary whose presence in the headquarters of our Group enables her to attend the day-to-day corporate secretarial matters of our Group and to take the necessary actions in an effective and efficient manner.

However, given that Ms. Yu does not possess a qualification stipulated in Note 1 to Rule 3.28 of the Listing Rules nor the “relevant experience” set out in Note 2 to Rule 3.28 of the Listing Rules, she is not able to solely fulfill the requirements as a company secretary of a listed issuer stipulated under Rules 3.28 and 8.17 of the Listing Rules. In order to provide support to Ms. Yu, we have appointed Ms. Lau, a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom, who is qualified under Rule 3.28 of the Listing Rules, to act as the other joint company secretary to closely work with and provide support to Ms. Yu during the Waiver Period so as to enable Ms. Yu to acquire the relevant experience (as required under Note 2 to Rule 3.28 of the Listing Rules) to duly discharge her duties as a company secretary of a listed issuer.

Accordingly, we have applied to the Stock Exchange for[, and the Stock Exchange has granted us,] a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules in relation to the appointment of Ms. Yu as our joint company secretary on the condition that Ms. Yu will be assisted by Ms. Lau as our joint company secretary throughout the Waiver Period. Being a director of Corporate Services of Tricor Services Limited and by virtue of her experience in corporate secretarial practice and administration management, Ms. Lau is, in our Directors’ opinion, a qualified and suitable person to render assistance to Ms. Yu so as to enable her to acquire the relevant experience (as required under Note 2 to Rule 3.28 of the Listing Rules) to duly discharge her duties. In addition, Ms. Yu will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance her knowledge of the Listing Rules during the Waiver Period. Our Company will further ensure that Ms. Yu has access to the relevant training and support that would enhance her understanding of the Listing Rules and the duties of a company secretary of an issuer listed on the Stock Exchange.

Such waiver will be revoked immediately if and when Ms. Lau ceases to provide such assistance or our Company commits any material breaches of the Listing Rules during the Waiver Period. Before the expiry of such three-year period, we will liaise with the Stock Exchange to enable it to assess the then experience

WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

of Ms. Yu, having had the benefit of Ms. Lau’s assistance for three years, will have acquired the relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

See “Directors, Supervisors and Senior Management” for the biographical information of Ms. Yu and Ms. Lau.

ACQUISITION AFTER THE TRACK RECORD PERIOD

Pursuant to Rules 4.04(2) and 4.04(4) of the Listing Rules, the issuer shall include in its accountants’ report the results and balance sheet of any subsidiaries and/or businesses acquired, agreed to be acquired or proposed to be acquired since the date to which the latest audited accounts of the issuer have been made up in respect of each of the three financial years immediately preceding the issue of the listing document.

As of the Latest Practicable Date, we intend to acquire a target company (the “Target Company”).

The Target Company is owned by an Independent Third Party, who is our local distributor in Thailand, and is incorporated by such Independent Third Party for future potential cooperation with our Company. The Target Company has not commenced operations and does not hold any asset since its incorporation, and we intend to acquire from the Independent Third Party certain equity interest of the Target Company at nil consideration (the “Proposed Acquisition”). The consideration was determined taking into account the fact that the Target Company has no operations and assets.

As of the Latest Practicable Date, our brand stores in Thailand are operated by our distributor. After completion of the Proposed Acquisition, the Target Company will become a subsidiary of the Company and we intend to operate certain brand stores in Thailand directly through the Target Company, further enhancing our brand image and market presence in Thailand.

Our Directors believe that the terms of the Proposed Acquisition, including the consideration, are fair and reasonable, and the Proposed Acquisition is in the interests of our Company and our Shareholders as a whole. The Proposed Acquisition will not have a material financial impact on the Group.

We have applied to the Stock Exchange for [, and the Stock Exchange has granted us], a waiver from strict compliance with Rules 4.04(2) and 4.04(4)(a) of the Listing Rules in relation to the preparation of financial statements in respect of the Target Company on the following grounds:

- (a) **Immateriality of the Proposed Acquisition:** As the Target Company has not commenced business operation, the scale of the business operated by the Target Company, in comparison to the overall business of the Group, is not material. All the applicable percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) in relation to the Proposed Acquisition are less than 5%. While the Proposed Acquisition represents a suitable strategic initiative for the Group, our Directors believe that its completion will not significantly affect the financial position of the Group as a whole. Furthermore, it is expected that the Target Company will not constitute a significant subsidiary of the Company (as defined under Chapter 14A of the Listing Rules), even after the Proposed Acquisition is completed.
- (b) **Unavailability of information:** The Target Company does not have any substantive operations or financial records available for disclosure, as its assets, revenue, and profit for the most recent financial year are all nil. As such, the Target Company has not prepared financial statements that would otherwise be required for inclusion in this document. In light of the absence of meaningful financial data and the immaterial scale of the Target Company relative to the Group, it would not be practical to include its audited financial information in this document.

WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

- (c) **Alternative disclosure:** To provide potential [REDACTED] with sufficient information to understand the Proposed Acquisition, this document includes comparable disclosures typically required for a discloseable transaction under Rules 14.58 and 14.60 of the Listing Rules. These include: (i) a general description of the scope of the Target Company’s principal business activities; (ii) the consideration for the Proposed Acquisition; (iii) the basis on which the consideration was determined; (iv) confirmation as to whether the counterparty is an Independent Third Party; (v) the reasons for and benefits of the Proposed Acquisition; and (vi) a statement that our Directors believe that the terms of the Proposed Acquisition are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

Name	Address	Nationality
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Mr. Huang Jin (黃今)	No. 102, Gate 3, 7th Floor Liufang South Lane Chaoyang District Beijing PRC	Chinese
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Independent non-executive Directors		
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Name	Address	Nationality
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Ms. Jing Xiaoyan (景小燕)	23A Eight Kwai Fong Happy Valley Hong Kong	Chinese

SUPERVISORS

Name	Address	Nationality
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Mr. Li Shichao (李仕超)	Room 405, Unit 2, 4th Floor No. 403, Baiziwan East Li Chaoyang District Beijing PRC	Chinese
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For further information regarding our Directors and Supervisors, see “Directors, Supervisors and Senior Management.”

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

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50/F, Champion Tower

3 Garden Road

Central

Hong Kong

Huatai Financial Holdings (Hong Kong) Limited

62/F, The Center

99 Queen’s Road Central

Hong Kong

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DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

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	<p><i>As to PRC laws in relation to data compliance:</i></p> <p>Mertis & Tree Law Offices 27F Tower A, THREE itc No.183 Hongqiao Road Xuhui District, Shanghai PRC</p>
<p>Legal advisors to the Joint Sponsors and the [REDACTED]</p>	<p><i>As to Hong Kong and U.S. laws:</i></p> <p>Kirkland & Ellis 26/F, Gloucester Tower The Landmark 15 Queen’s Road Central Hong Kong</p> <p><i>As to PRC laws:</i></p> <p>Haiwen & Partners 20/F, Fortune Financial Center 5 Dong San Huan Central Road Chaoyang District Beijing PRC</p>
<p>Legal advisors to the Single Largest Group of Shareholders</p>	<p><i>As to Hong Kong laws:</i></p> <p>Koo, Li & Partners LLP in association with Merits & Tree LLP Suite 3310, 33/F Jardine House 1 Connaught Place, Central Hong Kong</p> <p><i>As to PRC laws:</i></p> <p>Mertis & Tree LLP Suite 3310, 33/F Jardine House 1 Connaught Place, Central Hong Kong</p>
<p>Auditors and Reporting Accountants</p>	<p>Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> <i>Registered Public Interest Entity Auditor</i> 35/F, One Pacific Place 88 Queensway Hong Kong</p>
<p>Industry consultant</p>	<p>China Insights Industry Consultancy Limited 10F, Block B, Jing’an International Center 88 Puji Road Jing’an District Shanghai PRC</p> <p>[REDACTED]</p>

CORPORATE INFORMATION

Headquarters and registered office in the PRC	D01, 4th Floor, Main Building Isha Cultural Center No. 1, South Side of Sihui Bridge Chaoyang District Beijing PRC
Principal place of business in Hong Kong	Room 1912, 19/F Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Company’s website	<u>www.52toys.com</u> <i>(information on this website does not form part of this document)</i>
Joint Company Secretaries	Ms. Yu Sichen (于思晨) D01, 4th Floor, Main Building Isha Cultural Center No. 1, South Side of Sihui Bridge Chaoyang District Beijing PRC Ms. Lau Yee Wa (劉綺華) ACG, HKACG Room 1912, 19/F Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Authorized representatives	Mr. Chen Wei (陳威) No. 6 No. 10, Lane 3, Xiangjun South Lane Chaoyang District Beijing PRC Ms. Lau Yee Wa (劉綺華) Room 1912, 19/F Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Audit Committee	Ms. Jing Xiaoyan (景小燕)(Chairperson) Mr. Zhang Liang (張亮) Ms. Zhang Tao (章濤)
Remuneration and Appraisal Committee	Mr. Zhang Liang (張亮) (Chairperson) Ms. Jing Xiaoyan (景小燕) Mr. Huang Jin (黃今)

CORPORATE INFORMATION

Nomination Committee

Mr. Chen Wei (陳威) (*Chairperson*)
Mr. Zhang Liang (張亮)
Ms. Jing Xiaoyan (景小燕)

Strategy Committee

Mr. Zhang Liang (張亮) (*Chairperson*)
Ms. Zhang Tao (章濤)
Mr. Chen Wei (陳威)

Compliance advisor

Somerley Capital Limited
20/F China Building
29 Queen’s Road Central
Hong Kong

H Share Registrar

[REDACTED]

Principal banks

**China Minsheng Banking Corporation Limited,
Beijing Jianguomen Branch**
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PRC

**China Merchants Bank Co., Ltd., Beijing Jianguo
Road Branch**
No. 22 Jianguomenwai Street
Chaoyang District
Beijing
PRC

INDUSTRY OVERVIEW

This section and elsewhere in this document contain certain information, statistics and data which are derived from various official government publications and other publicly available publications, and a report commissioned by us and prepared by our industry consultant, CIC. We believe that the sources of the information in this section and elsewhere in this document 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 in any material respect or misleading. The information, statistics and data from official government sources have not been independently verified by us, the Joint Sponsors, [REDACTED] any of our or their respective directors, officers, employees, advisers or agents or any other party (other than CIC) involved in the [REDACTED], and no representation is given as to their accuracy, reliability or completeness. As such, [REDACTED] are cautioned not to place any undue reliance on the information, including statistics, data and estimates, set out in this section or similar information included elsewhere in this document.

GLOBAL AND CHINA’S IP DERIVATIVE PRODUCT INDUSTRY

Overview of the Global and China’s IP derivative product Industry

IP derivative products are physical products developed based on the characters, scenes and stories in entertainment content such as comics, novel, film, television series, animation, game, artist images, etc. IP derivative products can bring greater emotional value and form connections between fans and original IP works, enriching people’s spiritual and entertainment lives. More and more consumers are choosing to express their love for the original IP works by collecting related products.

IP derivative products mainly include IP toys, IP clothing and other IP derivative products such as trading cards, home goods, daily necessities, etc. IP toy is the largest segment in IP derivative product market.

Value chain analysis of IP derivative product industry

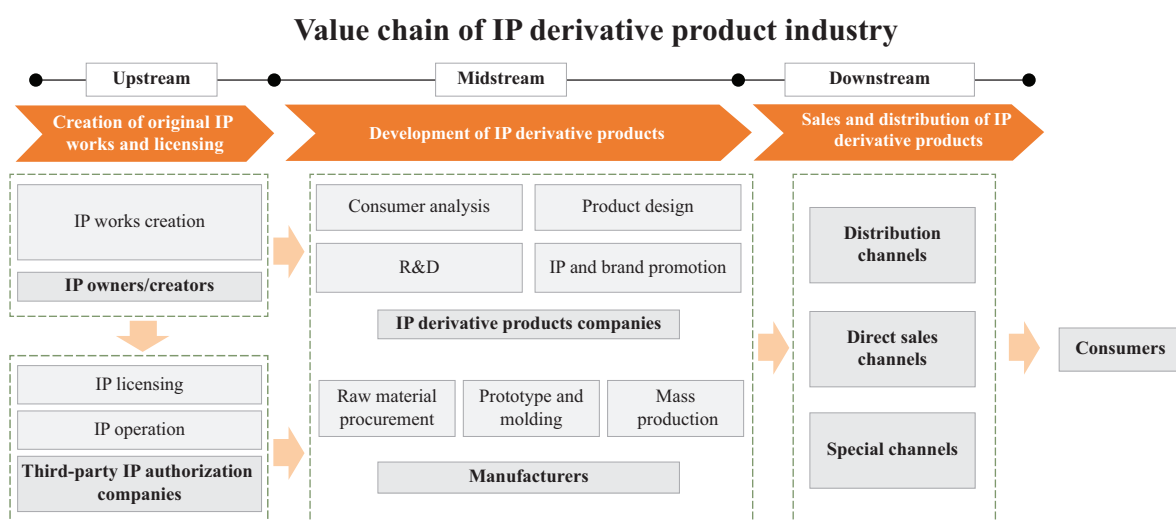
Major market activities in the value chain of IP derivative product industry can be divided into:

Upstream: creation and licensing of original IP works. The major market participants in the upstream of value chain are IP owners/creators and third-party IP licensing companies. IPs with high recognition, profound cultural connotations and a broad fan base can significantly enhance the competitiveness of IP derivative product market. The IP owners/creators and third-party IP licensing companies mainly cooperate with IP derivative product companies through either fixed licensing fees or profit-sharing model.

Midstream: development of IP derivative products. The major market participants in the mid-stream of value chain are IP derivative product companies and manufacturers. IP derivative product companies focus on the design of IP derivative products which are tailored to fans’ preference while maintaining the authenticity of original IP works. IP derivative product companies also work closely with well-known designers and artists in developing certain crossover products. Leading IP derivative product companies could further establish their own brands by extending their R&D ability, quality control experience and consumer reputation. IP derivative products can be produced either in IP derivative product companies’ own manufacturing facilities or through third-party manufacturers after the design is finished by IP derivative product companies.

Downstream: sales and distribution of IP derivative products. IP derivative products will be sold to consumers through various downstream sales channels, including distribution channels, direct sales channels, and special channels which adopt consignment sales model, such as museums, amusement parks, etc.

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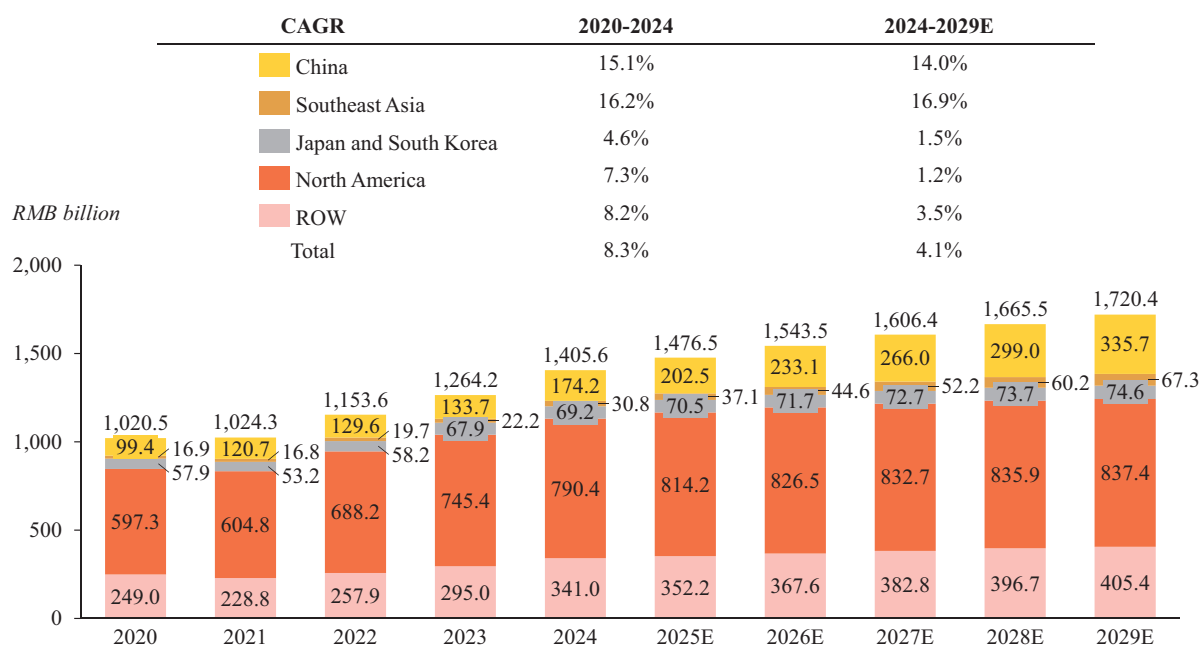


Source: CIC Report

Market size of Global and China's IP derivative products

Driven by the booming development of the cultural and entertainment industry, the consumer base of IP works and IP derivative products continue to expand. In addition, the consumer demand is becoming increasingly diversified, driving more diverse IP derivative product offerings. The market size of the global IP derivative products in terms of GMV increased from RMB1,020.5 billion in 2020 to RMB1,405.6 billion in 2024, representing a CAGR of 8.3% from 2020 to 2024, and is expected to further reach RMB1,720.4 billion in 2029, representing a CAGR of 4.1% from 2024 to 2029.

Global IP derivative product market size in terms of GMV, by region, 2020-2029E

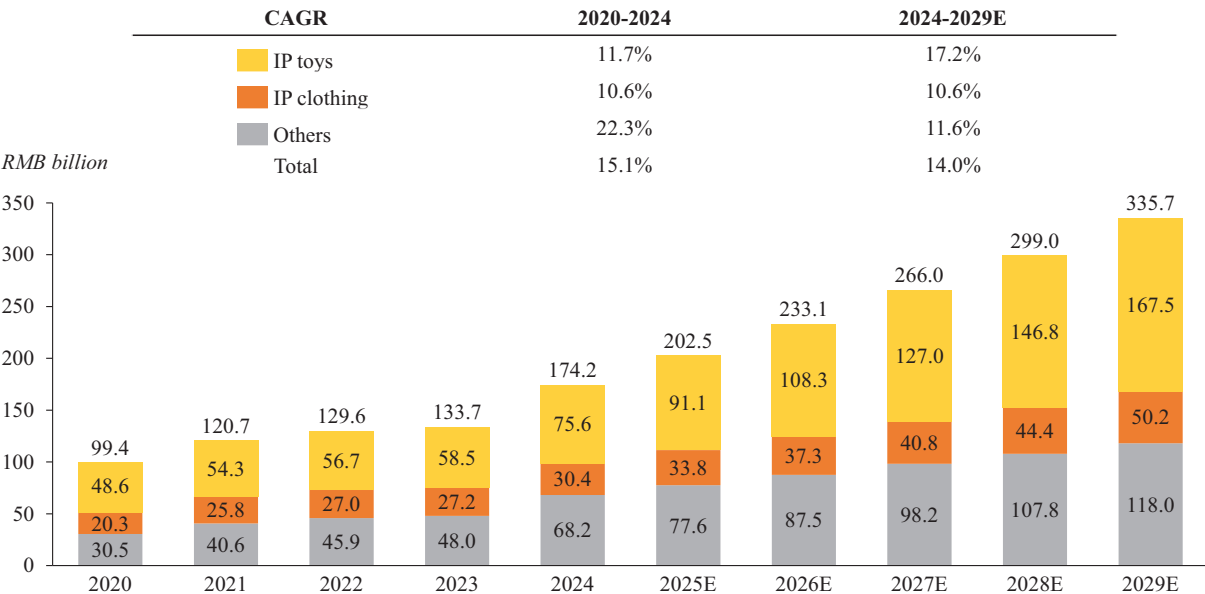


Source: Licensing International, CIC Report

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Driven by increasing disposable income as well as the emergence of new popular IPs, consumers are more willing to spend on IP derivative products. China’s IP derivative product market has been showing great growth potential in recent years. China’s IP derivative product market size in terms of GMV increased from RMB99.4 billion in 2020 to RMB174.2 billion in 2024, representing a CAGR of 15.1%, and is expected to reach RMB335.7 billion in 2029, representing a CAGR of 14.0% from 2024 to 2029.

China’s IP derivative product market size in terms of GMV, by category, 2020-2029E



Source: National Bureau of Statistics of China, CIC Report

Overview of the Global IP Toy Industry

IP toy is the largest segment within the global IP derivative product market. IP toys are gaining popularity in the market with their unique cultural connotations and emotional resonance, encouraging a wide variety of products creation, such as figures of popular anime characters and related products of films and television shows. Toys are being recognized as an increasingly important commercialization tool for IP creation, especially for IPs with long lifecycle, the creation of which involved larger investments.

IP toy companies are increasingly focusing on product differentiations to enhance the continuous innovation in the IP toys category. Generally, IP toys can be categorized into figures, movable figures, building and assembly toys, plush toys and others.

Main types and definitions of IP toys

Type	Definition
Figures	Figures are fixed character toys based on IP works, and mainly include character figures, statues, pop toys, etc.
Movable Figures	Movable figures are movable model toys based on IP works, and mainly include action figures, wind-up toys, mecha transformable toys, ball-jointed dolls, etc.
Building and Assembly Toys	Building and assembly toys are toys made of multiple parts, which consumers play with by using the parts to complete the construction of toys, mainly include building blocks, hobby model kits, assembly models, etc.

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- Plush Toys

Plush toys are toys made of textiles as the main material and contain various fillings, usually designed in the shape of animals or characters, and mainly include traditional short plush toys, long plush toys and plush toys with vinyl parts, etc.
- Others

Other IP toys include candy toys, car models, handicrafts, sports toys, etc.

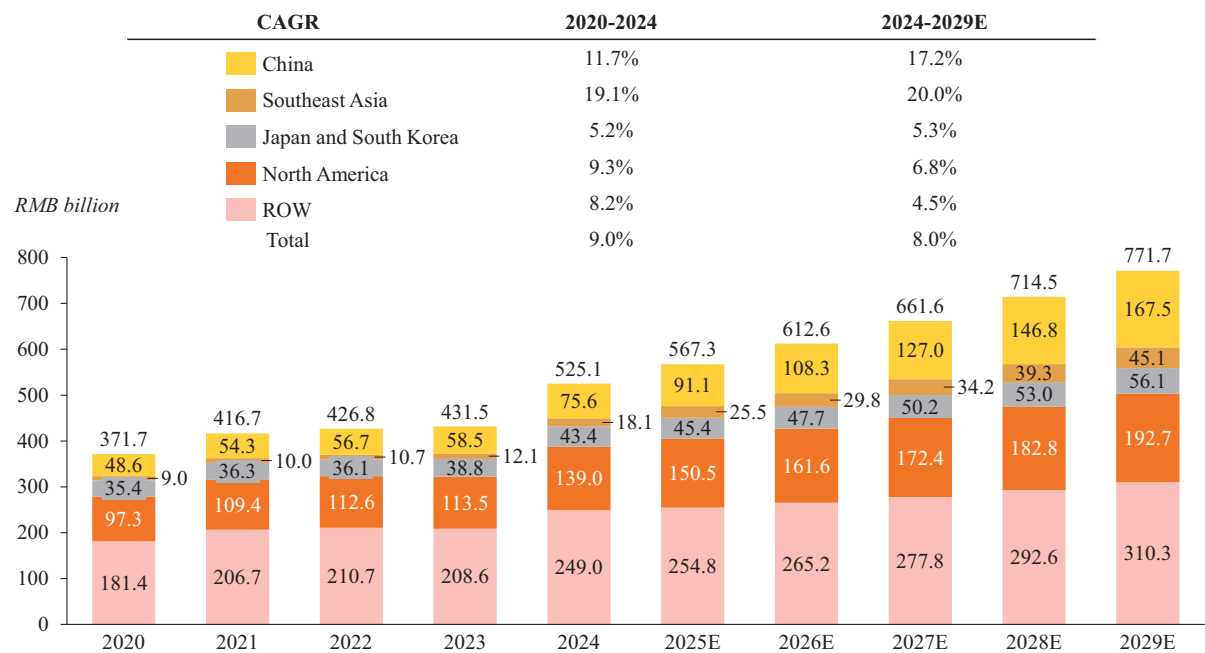
Source: CIC Report

The global IP toy market size in terms of GMV reached RMB525.1 billion, accounting for 37.4% of the global IP derivative product market in 2024.

The consumer base of the IP toy market continues to expand. In addition to kids and teenagers, adults have also become an important purchasing group. Such “kidults” (adults with interests in toys, games, and youth-centric pop culture) have shown greater interest in IP toys with collection value. Meanwhile, emerging markets such as Southeast Asia also showed a great potential for future growth. In the foreseeable future, the global IP toy market is expected to maintain its growth momentum.

The global IP toy market is expected to reach RMB771.7 billion in 2029, representing a CAGR of 8.0% from 2024 to 2029. Among all regions, North America is the largest regional market, accounting for 26.5% of the global IP toy market in 2024. China and Southeast Asia are the top two fastest growing regions from 2020 to 2024, with a CAGR of 11.7% and 19.1%, respectively, during the same period. It is expected that the market size in these two regions will achieve a CAGR of 17.2% and 20.0% from 2024 to 2029, respectively.

Global IP toy market size, by region, 2020-2029E



Source: The Japanese Toy Association, CIC Report

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IP TOY INDUSTRY IN CHINA

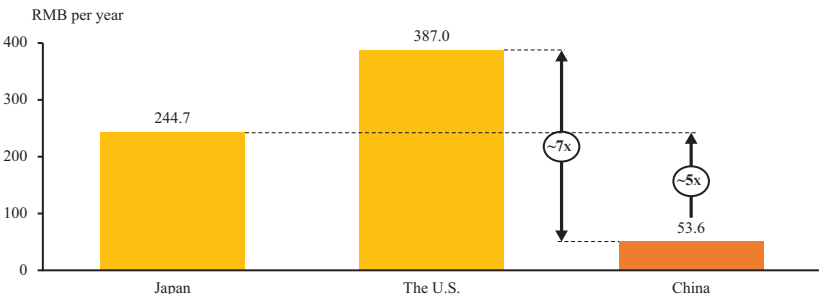
Overview of China’s IP Toy Market

China’s IP toy market is still in its early stage of development, gradually transitioning from a phase of limited product offering to a maturer stage characterized by diversified product categories, creative designs and premium branding. Market growth and innovation are predominantly driven by leading enterprises who are enhancing product quality and fostering the standardization of the market.

China’s IP toy market has increasingly gained public attention, supported by a boarder user base and rapid market expansion in recent years. The primary consumer demographic consists of youths, a majority of which aged under 35. This group is generally passionate about IP work, has diverse and unique interests, values immersive experiences, and pursues fashion and individuality.

Despite the rapid development of China’s IP toy market, the per capita expenditure on IP toys still lags behind that of other mature markets. In 2024, the per capita expenditure on IP toys in the United States and Japan reached RMB387.0 and RMB244.7, respectively, as compared to RMB53.6 in China, which was significantly lower than the levels in the United States and Japan, indicating immense growth potential. Drawing from the experience of mature markets, once a nation’s GDP per capita surpasses USD10,000, consumers tend to allocate more of their spending toward cultural and entertainment products and services, driving a stronger willingness to invest in beloved IPs, which in turn supports the growth of the IP toy market. Once its economic growth surpassed this threshold, the expansion of its middleclass population and the rise in household disposable income paved the way for the rapid growth of the content industry. As China’s economy continues to grow steadily and disposable income levels rise, per capita expenditure on IP toys is expected to increase accordingly.

Per capita expenditure on IP toys, by country/region, 2024



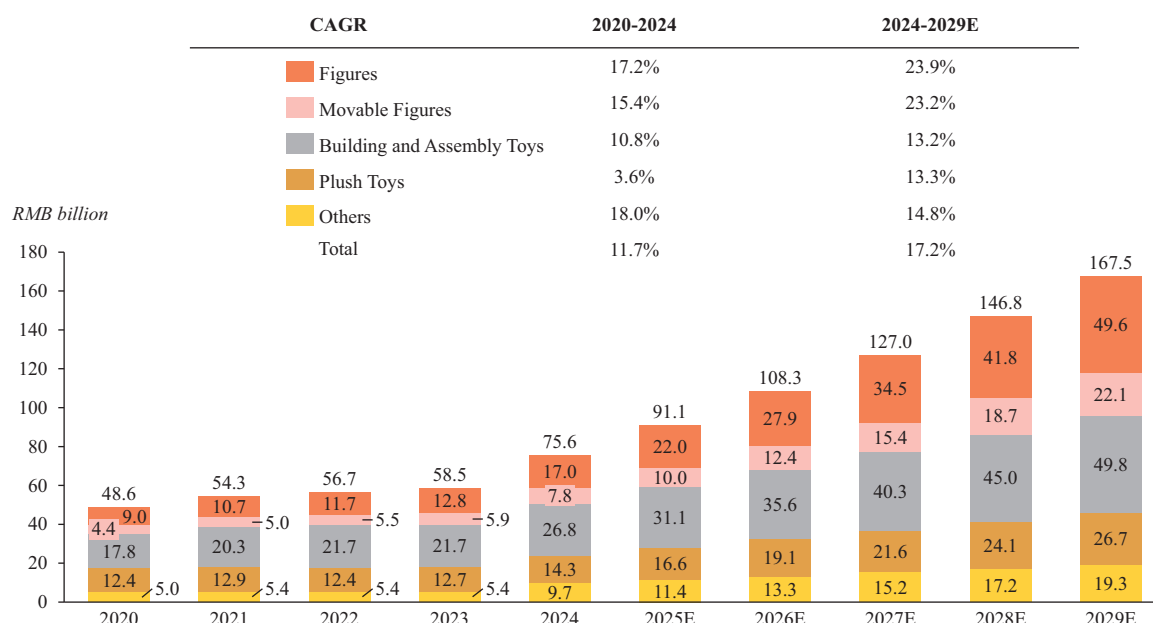
Source: National Bureau of Statistics, IMF, CIC Report

Market size of IP toys in China

In 2024, China’s IP toy market size reached RMB75.6 billion, representing 43.4% of China’s IP derivative product market. As more high-quality IPs emerge and the IP commercialization capabilities improve, the share of China’s IP toy market in the China’s IP derivative product market will continue to increase, and is expected to reach 49.9% in 2029. Among all the IP toy segments, figures and movable figures have been the fastest-growing subcategories, with a CAGR of 17.2% and 15.4%, respectively, from 2020 to 2024 and is estimated to further grow at a CAGR of 23.9% and 23.2%, respectively, from 2024 to 2029.

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China’s IP toy market size in terms of GMV, by category, 2020-2029E



Source: China Toy & Juvenile Products Association, CIC Report

Market Drivers for IP Toy Market in China

- i) **Expanding consumer base and increasing willingness to pay:** Due to the rise in personal disposable income and upgrades in cultural consumption, consumer demand for spiritual and cultural products has been steadily increasing. IP toys as carriers of IP, possess distinctive artistic and cultural attributes, serving as important mediums for fans to express their emotions. The expanding consumer base has become a key driving factor for the development of the IP toy industry. As individuals gain a deeper understanding of IP toys, their willingness to pay for beloved IPs is expected to grow. Purchasing behavior is likely to progress from initial trial purchases to collecting a variety of IP toys and even paying premiums for innovative, high-quality products. On the other hand, China’s per capita expenditure on IP toys remains significantly lower than that of the U.S. and Japan, highlighting the significant growth potential of the Chinese IP toy market. Meanwhile, the rising kidults trend indicates great growth potentials of IP toy market.
- ii) **Booming IP works Creation:** The global cultural entertainment industry is booming, with a substantial amount of pan-entertainment IP being created and published annually, reflecting continuous innovation in form and content. IPs derived from movies, anime, games, and literary works have achieved global dissemination, which significantly enrich the spiritual and cultural lives of consumers and expands the licensing scope for the IP toy industry, providing an ongoing source of creative inspiration. The contribution of domestic IPs has been steadily increasing. In addition, domestically produced IPs have dominated China’s IP licensing market since 2021, accounting for the majority of licenses and surpassing the share of U.S. IPs, positioning domestic IPs as the primary source of IP licensing in China. The emergence of globally renowned phenomenal IP works will further drive the popularity of various IP derivative products.
- iii) **The emergence of high-quality products drives supply-side upgrades:** With the booming development of the IP market, consumers increasingly prioritize not only the design and craftsmanship of toys but also their accuracy in capturing the worldview, character traits and cultural essence of the IP. By accurately aligning with the tone of the IP and incorporating new technologies and innovative features, companies are continually developing toys that evoke stronger emotional resonance and possess higher collectible value. These products successfully capture the attention of IP fan

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communities, strengthen brand loyalty, and differentiate themselves in a competitive market, driving the industry toward a trajectory of high-quality, value-added growth.

- iv) ***Supportive policies towards industry upgrades:*** In 2025, multiple government ministries jointly issued a document encouraging the integration of outstanding traditional Chinese culture into product design, supporting enterprises in developing original IP brands, and promoting consumption in fields such as animation, gaming, e-sports, and their derivatives. The initiative aims to expand the domestic and international markets for trendy Chinese products. Furthermore, it encourages localized creativity and innovation, increases support for China-chic IPs, and fosters the diversified development of the overall IP derivative products and IP toy industry.

Future Trends of China’s IP Toy Market

- i) ***Kidult trend:*** “Kidults” refers to a growing demographic of adults who enjoy and collect toys. As adults increasingly seek collectible, aesthetically appealing and emotionally meaningful IP toys, the toy industry has quietly undergone a transformation. An increasing portion of its consumer base now consists of adults purchasing toys not for children, but for themselves. Such trend has also been identified in mature market such as Japan and the U.S. In Japan, despite a continuous decline in the youth population, Japan’s toy industry has adopted strategies to expand its consumer base by targeting a wider age range, with adult consumers now forming the primary customer segment in Japan’s IP toy market. Similar to Japan, the U.S. market also exhibits trends aligned with such patterns, as economically mature kidults, are contributing an increasing share to the market. In 2024, adult consumers became the largest age group in the U.S. toy market for the first time. It is expected that, as China’s market continues to grow to a maturer stage, adults will account for the largest proportion in the market following the kidult trend in the future.
- ii) ***Further product category extension:*** Japan’s IP toy market is relatively mature and offers valuable insights for the development of China’s IP toy market. A significant number of Japanese anime and manga creations have gained global influence, driving the entire IP toy value chain into a continuous growth of product category extension. The globally popular blind box culture, for instance, can trace its origins back to Japan’s capsule toy (Gacha) market. With the increasing diversification and personalization of consumer demand, IP toy companies are continually expanding their product lines to cover a wide range of categories, including animation, film, gaming and traditional culture. By integrating various materials, techniques and design styles, they are introducing a diverse portfolio of products. Additionally, companies are incorporating technological elements such as articulated joints, sound and light effects, and smart interactions to enhance the playability and collectible value of toys.
- iii) ***Stronger cooperation-bond throughout the industry:*** The collaboration between players throughout the value chain in China’s IP industry is expected to become increasingly close, emerging as a key future trend. For instance, production committee model has been widely adopted in Japan IP industry. A production committee is a group of companies or individuals who collaborate to fund and oversee the production of an IP. They typically pool resources and expertise to share the financial risk and bring the project to fruition. Such model helps to establish strong interest alignment and exclusive cooperations between IP owners and toy companies in the IP conceptualization stage. The success of production committee model has been proven in Japan’s market and it is expected that more Chinese IP toy companies may follow the implementation for further growth. Furthermore, other parties within the IP industry also realize the importance of IP derivative products and may seek deeper cooperation with IP toys companies. For instance, cinema-chain operators and producers in China had begun to work with IP toys companies for the development of related products to consumers along with the release of certain movie titles. These trends collectively strengthen the collaboration between IP toy companies and other stakeholders across the value chain. This enhanced coordination will help optimize IP monetisation, maximize its value, and extend the lifecycle of IPs.

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- iv) **Market consolidation:** The top three IP toy companies in China hold a combined market share of 33.1% in terms of GMV in China in 2024, reflecting a relatively fragmented industry. In contrast, mature markets such as Japan and the U.S. are more consolidated, with the top three players accounting for 72.2% and 49.3% of GMV in the respective country in 2024, respectively. As the Chinese market matures, a similar consolidation trend is expected. Large, multi-category players are better positioned to serve as long-term partners for IP owners, offering one-stop solutions, greater operational efficiency and coordinated IP promotion.

IP Toy Market in Southeast Asia

With the rapid development of the overseas IP toy market and the growing recognition of Chinese IP toys, Chinese IP toy companies are increasingly focusing on their performance in international markets. Through local store openings, cross-border e-commerce platforms and international exhibitions, Chinese IP toy companies are accelerating their expansion into overseas markets, capturing the attention of global IP toy enthusiasts. This internationalization not only opens new growth opportunities for businesses but also serves as a critical avenue for enhancing global competitiveness. Looking ahead, China’s IP toy industry is poised to gain greater prominence on the global stage.

Southeast Asia, which has a significant population and over half of its people under 35 years old, shows strong demand from young consumers for trendy and creative products. These consumers seek individuality and innovation, driving an overall upgrade in consumption preferences and fostering the prosperity of the local IP toy market. Leveraging a more mature product system, exceptional product designs and the advantages of a localized supply chain in China, Chinese IP toys hold a significant competitive edge in Southeast Asia. In recent years, the market has shown immense growth potential and vibrancy, with the market size in terms of GMV of IP toys in Southeast Asia projected to increase from RMB18.1 billion in 2024 to RMB45.1 billion in 2029, representing a CAGR of 20.0% between 2024 and 2029.

COMPETITIVE LANDSCAPE OF THE IP TOY MARKET IN CHINA

In 2024, there were numerous players in China’s IP toy market, and the market was relatively fragmented, with the top 10 companies in China together accounting for 46.1% of the aggregate GMV in China. In 2024, we ranked third among Chinese IP toy companies and second among multi-genre Chinese IP toy companies in China’s IP toy market in terms of GMV in China. The following chart lists the top 5 Chinese companies in the China’s IP toy market in 2024:

Top 5 Chinese IP Toy Companies in China, by GMV, 2024

Ranking	Group	Main categories	GMV (RMB billion)	Market share
1	Company A ⁽¹⁾	Figures, Movable Figures, Building and Assembly Toys, Plush Toys, Others	8.72	11.5%
2	Company B ⁽²⁾	Building and Assembly Toys	4.30	5.7%
3	the Company	Figures, Movable Figures, Building and Assembly Toys, Plush Toys, Others	0.93	1.2%
4	Company C ⁽³⁾	Figures, Plush Toys	0.90	1.2%
5	Company D ⁽⁴⁾	Figures, Movable Figures, Plush Toys	0.88	1.2%
Subtotal			15.7	20.8%
Total GMV of China’s IP toy market			75.6	100.0%

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Source: CIC Report

Notes:

- (1) Company A: a Chinese company founded in 2010, headquartered in Beijing, listed on the Hong Kong Stock Exchange, which mainly offers IP toys.
- (2) Company B: a Chinese company founded in 2014, headquartered in Shanghai, listed on the Hong Kong Stock Exchange, which mainly offers IP toys.
- (3) Company C: a Chinese private company founded in 2022, headquartered in Hangzhou, Zhejiang, which mainly offers IP toys.
- (4) Company D: a Chinese company founded in 1997, headquartered in Shantou, Guangdong, listed on Shenzhen Stock Exchange, which mainly offers IP toys and animation.

As the industry develops and consumer preferences diversify, broad product portfolio has become a key competitive advantage for IP toy companies. Companies that provide over three categories of IP toys are classified as multi-genre companies. Similar to the development trends in mature markets like Japan and the U.S., large-scale IP toy companies with multi-genre product design abilities can provide one-stop solutions and comprehensive collaboration plans tailored to different IPs for IP owners, enabling such companies to maintain a stronger competitive advantage in the market. We ranked second among multi-genre IP toy Chinese players in China’s IP toy market in terms of GMV in 2024. The following chart lists the top 5 multi-genre Chinese companies in the China’s IP toy market in 2024:

Top 5 Multi-genre IP Toy Chinese Companies in China, by GMV, 2024

Ranking	Group	Main categories	GMV (RMB billion)	Market share
1	Company A	Figures, Movable Figures, Building and Assembly Toys, Plush Toys, Others	8.72	11.5%
2	the Company	Figures, Movable Figures, Building and Assembly Toys, Plush Toys, Others	0.93	1.2%
3	Company D	Figures, Movable Figures, Plush Toys	0.88	1.2%
4	Company E ⁽¹⁾	Figures, Movable Figures, Plush Toys, Others	0.84	1.1%
5	Company F ⁽²⁾	Figures, Movable Figures, Plush Toys	0.61	0.8%
Subtotal			12.0	15.8%
Total GMV of China’s IP toy market			75.6	100.0%

Source: CIC Report

Notes:

- (1) Company E: a Chinese private company founded in 2009, headquartered in Guangzhou, Guangdong, which mainly offers IP toys.
- (2) Company F: a Chinese company founded in 2018, headquartered in Shenzhen, Guangdong, which mainly offers IP toys.

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We ranked seventh in China’s IP toy market in terms of GMV in 2024. The following chart lists the top 10 companies in the China’s IP toy market in 2024:

Top 10 IP toy companies in China, in terms of GMV, 2024

Ranking	Group	Nation	Main categories	GMV (RMB billion)	Market share
1	Company G ⁽¹⁾	Denmark	Building and Assembly Toys	12.00	15.9%
2	Company A	China	Figures, Movable Figures, Building and Assembly Toys, Plush Toys, Others	8.72	11.5%
3	Company B	China	Building and Assembly Toys	4.30	5.7%
4	Company H ⁽²⁾	USA	Figures, Movable Figures, Plush Toys	2.50	3.3%
5	Company I ⁽³⁾	Japan	Figures, Movable Figures, Building and Assembly Toys, Plush Toys, Others	2.30	3.0%
6	Company J ⁽⁴⁾	USA	Figures, Movable Figures, Plush Toys	1.50	2.0%
7	the Company	China	Figures, Movable Figures, Building and Assembly Toys, Plush Toys, Others	0.93	1.2%
8	Company C	China	Figures, Plush Toys	0.90	1.2%
9	Company D	China	Figures, Movable Figures, Plush Toys	0.88	1.2%
10	Company E	China	Figures, Movable Figures, Plush Toys, Others	0.84	1.1%
Subtotal				34.9	46.1%
Total GMV of China’s IP toy market				75.6	100.0%

Source: CIC Report

Notes:

- (1) Company G: a privately owned company founded in 1932, based in Billund, Denmark, which mainly offers IP toys.
- (2) Company H: a multinational mass media and entertainment conglomerate in U.S. founded in 1923, headquartered in Burbank, California, listed on the New York Stock Exchange, which engages in sectors including IP derivative products, media networks, parks and resorts, IP licensing, among others.
- (3) Company I: 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.
- (4) Company J: a multinational toy manufacturing and entertainment company in the U.S. founded in 1945, headquartered in El Segundo, California, listed on the New York Stock Exchange, which engages in IP toy development and IP works publication.

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The successful experience in IP operation and creating popular products can be replicated to other IPs. The Company’s Crayon Shin-chan and Tom & Jerry product series each ranked first in terms of GMV in China among all products based on the same IPs. The BeastBox products, which was developed based on the first domestic self-developed transformable mecha IP series targeting all age groups, also rank first among toys of this category.

Entry barriers of China’s IP toy industry

- i) ***Product design and R&D capabilities:*** Leading companies in China’s IP toy market must possess strong product design and development capabilities to meet increasingly diverse and personalized consumer demands. Firstly, innovative product design requires a thorough understanding of target consumers’ needs and preferences, which necessitates profound market insight and extensive design expertise. New entrants, however, often lack in-depth knowledge of market trends and consumer behaviors, making precise product positioning challenging. Secondly, the product development process presents both technical and creative challenges, as it requires seamlessly integrating an IP’s distinctive characteristics with the toy’s functionality and entertainment value. New companies often fall short in such experience, struggling to launch market-driven, high-demand products through continuous innovation. Lastly, the development cycle for IP toys is lengthy. Without a well-established R&D team and efficient development processes, new entrants to the market may not be able to successfully develop IP toys that meet the market demand in short term.
- ii) ***Strong IP operation capabilities:*** To fully realize the value of renowned IPs, industry participants must possess robust IP operation capabilities, including: a) IP value identification and analysis, to conduct in-depth analysis of IPs to understand their core value, target audience, and market potential; b) creativity and development capabilities, to design and develop related products, content or services based on IP characteristics, including derivative product creation, storyline development and character building to expand IP appeal across multiple sectors and attract diverse consumer groups; c) marketing and promotion strategies, to enhance IP market recognition and consumer purchasing intent through precise marketing techniques, including advertising, promotional campaigns and integrated online and offline initiatives. New entrants face significant barriers due to limited market experience, undeveloped operational capabilities, weaker brand influence and lack of fan bases.
- iii) ***IP resources:*** Accumulated IP resources enhance the creativity, adaptability, and competitiveness to satisfy diverse consumer preferences. Robust IP resources go beyond the ownership of a single IP, encompassing cross-IP integration and collaborative efforts. Leading IP toy companies typically possess a diversified IP portfolio of both own IPs and third-party authorized IPs, allowing them to flexibly adjust product offerings based on varied market demands and consumer interests. In addition, having multiple IPs enables risk diversification and reduces dependence on single IP or product. New entrants often lack a mature IP resource pool and industry networks, facing extended resource accumulation cycles and higher operational costs.
- iv) ***Strong brand recognition:*** Brands with strong recognition are often more successful at cultivating loyal consumer groups. Consumers are generally more confident when purchasing products from well-established brands, as brand recognition is typically founded on a proven track record of delivering high-quality products. In the IP derivative product sector, leading companies generally enjoy a significant competitive edge in brand awareness, far surpassing new market entrants. Consumer awareness and trust in a brand are critical factors influencing purchasing decisions, and well-known IP toy brands often leverage their reputation and market impact accumulated over time to foster strong customer loyalty. Building brand recognition requires significant market investment and long-term dedication. This involves not only advertising, promotional campaigns, and public relations efforts, but also consistently delivering high-quality products to gain

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consumer trust. New companies often lack the financial resources and scale to execute large-scale marketing initiatives. Brand recognition, on the other hand, tends to be established gradually through sustained marketing efforts and product excellence. Consequently, companies without robust brand influence often struggle to attain sufficient market exposure, which in turn impacts product sales and consumer preferences.

- v) ***Well-established sales network:*** IP toy companies require an extensive sales network to ensure effective product promotion, distribution and sales. Established companies benefit from extensive and efficient sales channels, including physical stores, e-commerce platforms and partnerships with retailers, which enable rapid market entry and direct connections with consumers. New entrants must build their sales networks from scratch, and address challenges related to inventory management, logistics and channel optimization.
- vi) ***Comprehensive supply chain management capabilities:*** The supply chain management capabilities in the IP toy industry encompass a comprehensive set of competencies, including innovation in product design and development, meticulous craftsmanship and quality control, as well as coordinated supply chain operations. In terms of product design and development, companies must work closely with designers to precisely convey and execute design concepts, ensure an engaging user experience, and achieve faithful recreation of characters’ essence. For craftsmanship and quality control, firms must either leverage in-house production or oversee third-party manufacturers to maintain high product quality and consistency, ensuring strict oversight across processes such as product engineering, manufacturing and quality inspections. Additionally, companies need to coordinate suppliers, manufacturers and distributors, optimizing inventory management and logistics. These capabilities often require significant time to build. Leading companies not only achieve efficient production with competitive costs but also deliver exceptional product quality.

Raw material price analysis

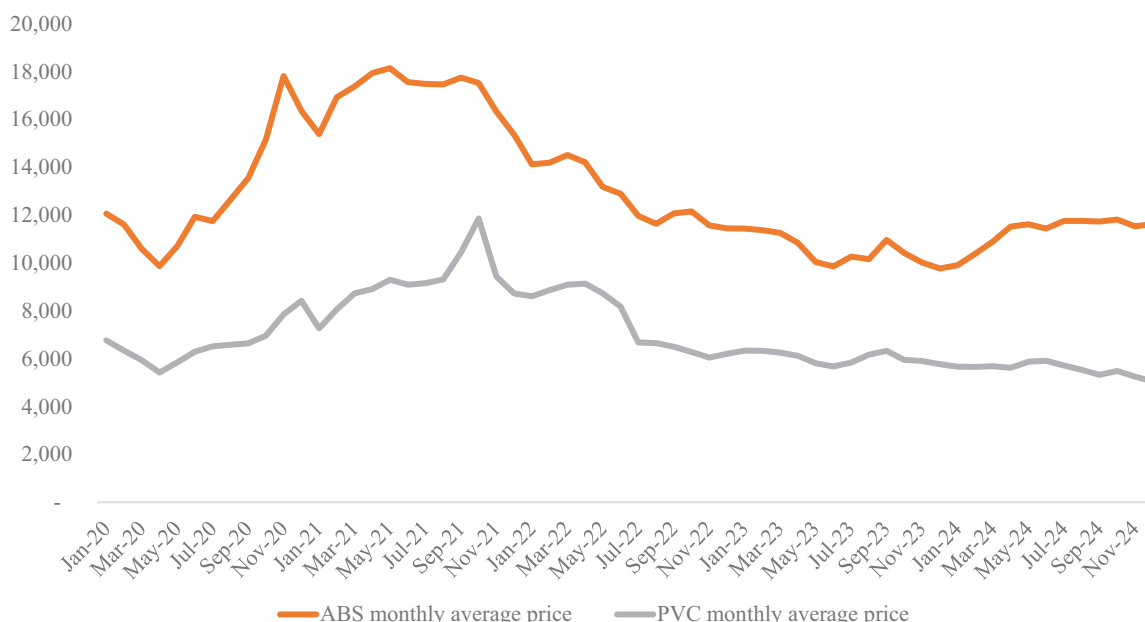
The core raw materials of the major categories of IP toys are ABS and PVC, which are all mature and stable industries in China. Between 2020 and 2024, the highest average price of ABS was RMB18,142.1 per ton, while the highest average price of PVC was RMB11,862.0 per ton.

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The following chart sets out the average prices of ABS and PVC in China during between 2020 and 2024:

Average price of ABS and PVC, China, 2020-2024

RMB per ton



Source: Dalian Commodity Exchange, CIC Report

SOURCES AND RELIABILITY OF INFORMATION

We commissioned CIC to conduct research on, provide an analysis of, and to produce the CIC Report on the IP derivative product industry in Global and 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 IP derivative product industry and related industries in Global and 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 IP derivative product industry and related industries in Global and 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.

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REGULATIONS ON IP TOYS

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) (the “**PRC Consumer Protection Law**”, 《中華人民共和國消費者權益保護法》(2013修正)), promulgated by the Standing Committee of the National People’s Congress (the “**SCNPC**”, 全國人民代表大會常務委員會) 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.

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

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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 (the “**PRC Civil Code**” 《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, 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 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.

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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

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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 Purchase Contract

Pursuant to the PRC Civil Code, 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 Import and Export of Toys

The Foreign Trade Law of the People’s Republic of China (2022 Amendment) (the “**PRC Foreign Trade Law**”, 《中華人民共和國對外貿易法》(2022修正)) was promulgated by the SCNPC on May 12, 1994, and last amended on December 30, 2022 and came into effective on the same date. Pursuant to the PRC Foreign Trade Law, the State allows free import and export of goods and technologies, unless it is otherwise provided under the laws and administrative regulations. According to the provisions of the PRC Foreign Trade Law, the State may restrict or prohibit the import or export of relevant goods or technologies for certain reasons. Import and export of goods that are banned or restricted for import and export without permission shall be handled and punished by the Customs in accordance with the provisions of laws and administrative rules; if crime is constituted, the criminal liabilities shall be ascertained.

According to the Customs Law of the PRC (2021 Amendment) (《中華人民共和國海關法》(2021修正)) promulgated by the SCNPC on January 22, 1987 and last amended on April 29, 2021 and became effective on the same date, where an enterprise engages in import or export of goods which goes through customs declaration formalities, it shall be subject to registration by customs or shall authorise customs clearing enterprise to handle customs declaration formalities.

Measures for the Inspection, Supervision and Administration of Import and Export Toys (2018 Revision) (《進出口玩具檢驗監督管理辦法》(2018修訂)), was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) on March 2, 2009, and amended by the General Administration of Customs (海關總署) and became effective on April 28, 2018, May 29, 2018 and November 23, 2018. Imported toys shall be inspected in accordance with the mandatory requirements of the national technical specifications of China. Exported toys shall be inspected according to the technical regulations and standards of the importing country or region. If the technical requirements agreed by the two parties are higher than the technical regulations and standards, the inspection shall be carried out in accordance with the agreed requirements. If the technical regulations and standards of the importing country or region are not clearly defined, the inspection shall be carried out in accordance with the mandatory requirements of the national technical specifications of China. Where an intergovernmental treaty is made in place, the inspection shall be carried out in accordance with the requirements stipulated therein. When exported toys are inspected, in addition to the relevant materials in accordance with the Provisions on Entry and Exit Inspection and Quarantine, the product quality and safety compliance statement shall be provided at the same time. When the exported toy is first inspected, the test report issued by the toy laboratory and other materials as stipulated by the General Administration of Customs shall be provided.

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Regulations on Lease of Property

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 and filing formalities with the competent construction (real-estate) departments of the People’s Government of the municipalities, 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 Government of the municipalities, 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, though such lease is valid and binding according to Provisions of the Supreme People’s Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes on Housing Lease in Cities and Suburban Areas (2020 Amendment) (《最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋》(2020修正)).

Regulations on Toys

IP toys products are currently regulated by the Announcement on Matters Relating to the Implementation of National Standards on Toy Safety Series (《關於實施玩具安全系列國家標準有關事項的公告》) issued and implemented on December 31, 2015, which establishes a series of national safety standards for toy products.

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 SAMR on June 8, 2023. According to the Blind Boxes Guidelines, blind box business operators shall set fair prices for blind boxes, avoiding unmarked fees, overpricing, or price fraud. Blind box business operators shall not sell blind boxes to the minors under the age of eight. Where blind boxes are sold to the minors aged eight or above, the blind box business operators shall ensure the relevant guardians has agreed to the purchase. Blind box business operators shall publicize the key product details of the blind boxes to consumers, including product names, product categories, product specifications, the products potentially contained in a given box and the relevant price range, product selection rules which may set out the format of participation such as via online or offline method and probabilities for a specific model being selected, as well as the quantity of limited-edition products. In addition, for blind boxes sold via non-instant methods such as offline stores where the consumers will not know the selection outcomes until opening the blind box, blind box business operators must retain the records of selection rules and probabilities and establish a corresponding sampling inspection mechanism. For blind boxes sold through instant online methods, through which the consumers will know the selection outcome instantly, operators must retain the records of selection rules and probabilities and complete records of selection outcome. The relevant record retention time is generally not less than three years.

REGULATIONS ON INTELLECTUAL PROPERTY RIGHTS

Patent

In accordance with the Patent Law of the People’s Republic of China (2020 Amendment) (《中華人民共和國專利法》(2020修正)) which was promulgated by the SCNPC on March 12, 1984 and latest amended

REGULATORY OVERVIEW

on October 17, 2020, with the latest revision effective on June 1, 2021, the Implementation Regulations for the Patent Law of the People’s Republic of China (2023 Revision) (《中華人民共和國專利法實施細則》(2023修訂)) which was promulgated by the State Council on December 21, 1992 and latest amended on December 11, 2023, with the latest revision effective on January 20, 2024, and the Public Announcement on Measures on Filing of Patent Licensing Contracts (《專利實施許可合同備案辦法》) which was promulgated by the State Intellectual Property Office on June 27, 2011 and came into effect on August 1, 2011, patent in PRC shall be categorized as invention, utility model and design. The duration of patent rights for an invention shall be 20 years, the duration of patent rights for a utility model shall be 10 years and the duration of patent rights for a design shall be 15 years, commencing from the filing date. Any organization or individual proposing to implement the patent of others shall enter into a licensing contract with the patentee for implementation and pay royalties to the patentee. And the State Intellectual Property Office shall be responsible for filing of patent licensing contracts nationwide. The parties concerned shall complete filing formalities within three months from the effective date of a patent licensing contract.

Trademark

In accordance with the Trademark Law of the People’s Republic of China (2019 Amendment) (《中華人民共和國商標法》(2019修正)) which was promulgated by SCNPC on August 23, 1982, and was latest amended on April 23, 2019, with the latest revision effective on November 1, 2019, and the Implementation Regulations for 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)) which was promulgated by the State Council on August 3, 2002 and was latest amended on April 29, 2014, with the latest revision effective on May 1, 2014, trademarks approved and registered by the trademark bureau are registered trademarks, including commodity trademarks, service marks and collective trademarks, certification marks; trademark registrants are entitled to exclusive rights to use trademark and are protected by the law. A registered trademark shall be valid for 10 years, commencing from the date of registration. Use of a trademark identical or similar to a registered trademark on the same type of commodities without licensing by the trademark registrant shall be deemed as infringement of exclusive rights to use registered trademarks.

Domain Name

In accordance with the Administrative Measures on Internet Domain Names (《互聯網域名管理辦法》) which was promulgated by the MIIT on August 24, 2017 and came into effect on November 1, 2017, the Implementing Rules for the Registration of National Top-level Domain Names (《國家頂級 域名註冊實施細則》) and Procedural Rules for Resolution of Disputes over National Top-level Domain Names (《國家頂級 域名爭議解決程序規則》) which were promulgated by China Internet Network Information Center on June 18, 2019 and came into effect on the same date, the domain name registration services shall in principle implement “first apply first register”; where the corresponding detailed rules for domain name registration stipulate otherwise, such provisions shall prevail. The domain name disputes shall be accepted and solved by a domain name dispute resolution body as recognized by the China Internet Network Information Center.

In accordance with the Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Providing Internet-based Information Services (《工業和信息化部關於規範互聯網信息服務使用域名的通知》) (hereinafter referred to as “Notice”), which was promulgated by the MIIT on November 27, 2017 and came into effect on January 1, 2018, the Internet access service provider concerned shall check the real identity information of the domain name registrant via the Record-filing System, and shall not provide access services if the Internet-based information service provider fails to provide real identity information or the identity information provided is inaccurate or incomplete, with the exception of domain names that have been filed for record with the Record-filing System prior to the effectiveness of this Notice.

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Copyright and Computer Software

In accordance with the Copyright Law of the People’s Republic China (2020 Amendment) (《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 latest amended on November 11, 2020, with latest revision effective on June 1, 2021, Chinese citizens, legal persons or organizations without legal personality enjoy copyright over their works, whether published or not, including written works; oral works; musical, dramatic, opera, dance, acrobatic artistic works; fine arts, architectural works; photographic works; audio-visual works; graphic works and model works, such as engineering design plan, product design plan, map, schematic diagram, etc.; computer software and any other intellectual achievements which comply with the characteristics of the works. Copyright shall include the following personal rights and property rights: publication right, right of authorship, right of revision, right to preserve the integrity of work, reproduction right, distribution right, rental right, exhibition right, performance right, screening right, broadcasting right, information network transmission right, filming right, adaptation right, translation right, compilation right, and any other rights enjoyed by a copyright holder.

The Regulations on Computer Software Protection (2013 Revision) (《計算機軟件保護條例》(2013修訂)), which was promulgated on June 4, 1991, amended on January 30, 2013 and became effective on March 1, 2013 by the State Council, stipulates that Chinese residents, legal entities or other organizations enjoy copyright in the software which they have developed, whether published or not, and a software copyright owner may register it with the software registration institution recognized by the copyright administration department of the State Council. The Measures for the Registration of Computer Software Copyright (《計算機軟件著作權登記辦法》), promulgated by the National Copyright Administration on February 20, 2002 with immediate effect, regulates registration of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The Copyright Protection Center of China (the “CPCC”) is the designated software registration authority. The CPCC grants registration certificates to computer software copyright applicants which conform to the provisions of both the Regulations on Computer Software Protection and the Measures for the Registration of Computer Software Copyright.

Trade Secrets

The PRC Anti-Unfair Competition Law also sets 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 AND DATA COMPLIANCE

Regulations on Online Trading and E-Commerce

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 State Administration for Market Regulation (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

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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 for Online Transaction 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.

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.

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 Ministry of Industry and Information Technology (the “**MIIT**”, 工業和信息化部) 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 and Data Privacy and 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 incidents, to prevent criminal activities committed on the

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network, and to maintain the integrity, confidentiality and availability of network data. The Cybersecurity Law emphasizes that any individuals and organizations that use networks must not endanger cybersecurity 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 permits, 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 permits 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, inclusion in relevant credit record, or even criminal liabilities.

On September 24, 2024, the State Council promulgated the Regulations on Administration of Network Data Security (《網絡數據安全管理條例》), which has come into force on January 1, 2025. This regulation clarifies the general provisions on network data security management, and also further supplements and refines the specific requirements on personal information protection, important data security management, cross-border security management of network data, and obligations of network platform service providers.

On March 22, 2024, the CAC issued the Provisions on Promoting and Regulating Cross-border Data Flow (《促進和規範數據跨境流動規定》) and the Guidelines for Application for Security Assessment of Outbound Data Transfer (Second Edition) (《數據出境安全評估申報指南(第二版)》). According to the provisions and the guidelines, data processors are subject to security assessments conducted by the CAC prior to any cross-border transfers of important data and personal information, if falling under any of the following circumstances: (i) where the critical information infrastructure operator intends to provide important data or personal information overseas; (ii) where the data processor other than critical information infrastructure operators intends to provide important data overseas; (iii) where the critical information infrastructure operator and any data processor who has provided personal information (excluding sensitive

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personal information) of at least one million individuals or sensitive personal information of at least 10,000 individuals to overseas recipients accumulatively since January 1 of the current year intends to provide personal information overseas; and (iv) other circumstances where the security assessment of cross-border data transfer is required as prescribed by the CAC.

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

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) (2024 Edition) (the “**Negative List**”, 《外商投資准入特別管理措施(負面清單)》(2024年版)), both promulgated jointly by the Ministry of Commerce (the “**MOFCOM**”, 中華人民共和國商務部) 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 November 1, 2024, 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

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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 Overseas Listings

The Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies and five supporting guidelines (the “**Overseas Listing Trial Measures**”, 《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 China Securities Regulatory Commission (the “**CSRC**”, 中國證券監督管理委員會) 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

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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.

According to the Notice of the SAFE on Further Simplifying and Improving the Foreign Exchange Management Policies for 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》)(hereinafter referred to as “**Circular 13**”), which was promulgated by the SAFE on February 13, 2015 and came into effect on June 1, 2015, and was amended on December 30, 2019, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment are directly reviewed and handled by banks in accordance with the Circular 13. The SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

The Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises (《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》) (hereinafter referred to as “**Circular 19**”) was promulgated by SAFE on March 30, 2015, came into effect on June 1, 2015 partially repealed on December 30, 2019 and partially amended by the Notice of the State Administration of Foreign Exchange of Policies for Reforming and Regulating the Control over Foreign Exchange Settlement under the Capital Account (《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 SAFE on June 9, 2016. Circular 19 superseded the Notice from the State Administration of Foreign Exchange on Reforming the Administration Method of Settlement of Foreign Exchange Capitals of Foreign-invested Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》) (hereinafter referred to as “**Circular 142**”) from the effective date. Circular 19 specifies that foreign exchange settlement by foreign-invested enterprise is subject to supervision under foreign exchange settlement policies, and cancels certain foreign exchange restrictions under Circular 142. However, Circular 19 restates that the use of capital of foreign invested enterprises should follow the principle of truthfulness and self-use within the business scope of an enterprise.

In accordance with the Notice from the State Administration of Foreign Exchange on Reforming and Regulating the Policies of Administration of Foreign Exchange Settlement for Capital Items (《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》) (hereinafter referred to as “**Circular 16**”) which was promulgated by the State Administration of Foreign Exchange on June 9, 2016 and came into effect on the same date, an enterprise registered in China may, at its sole discretion, convert its foreign debts in a foreign currency to RMB. Circular 16 provides a unified standard for foreign exchange under capital items (including but not limited to foreign currency capital and foreign debt) which may be convertible at the sole discretion of the enterprise. Such standard is applicable to all enterprises registered in the PRC. In addition, Circular 16 restates that, unless otherwise specified, an enterprise shall not directly or indirectly use RMB funds obtained as a result of conversion of foreign currency funds, for purposes outside the business scope, or for securities investment and investments wealth management other than capital protected products of banks in China. Moreover, except within the business scope, RMB funds obtained as a result of conversion shall not be used as loans to non-related companies; save for investment in a real estate enterprise, RMB funds obtained as a result of conversion shall not be used for construction or purchase of real estate which will not be used by the enterprise.

On October 23, 2019, the State Administration of Foreign Exchange released the Notice of the State Administration of Foreign Exchange on Further Promoting the Facilitation of Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), according to which, besides foreign-invested enterprises engaged in investment business, non-investment foreign-invested enterprises are also permitted to make domestic equity investments with their capital funds in accordance with the laws provided that such investments do not violate the Negative List and the target investment projects are genuine and in compliance with laws. According to the Notice of the SAFE on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business (《國家外匯管理局關於優化外匯管理支持涉外業務發展的通知》), issued by the State Administration of Foreign Exchange on April 10, 2020, eligible enterprises are allowed to make domestic payments by using their capital funds,

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foreign credits and the income under capital accounts of overseas listing, without submitting the evidentiary materials concerning authenticity of such capital for banks in advance; provided that their capital use is authentic and in compliance with administrative regulations on the use of income under capital accounts. The bank in charge shall follow the principle of prudential business development to manage and control relevant business risks, and conduct post spot checking on the facilitation of payment for the income under capital accounts in accordance with relevant requirements.

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies (《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》) (the “**Stock Option Rules**”). In accordance with the Stock Option Rules and relevant rules and regulations, PRC citizens or non-PRC citizens residing in China for a continuous period of not less than one year, who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, must register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain procedures. In addition, the State Taxation Administration of the PRC has issued circulars concerning employee share options or restricted shares. Under these circulars, employees working in the PRC who exercise share options, or whose restricted shares vest, will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income tax of these employees related to their share options or restricted shares. If the employees fail to pay, or the PRC subsidiaries fail to withhold, their individual income tax in accordance with relevant laws, rules and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC government authorities.

REGULATIONS ON LABOR

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.

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

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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 Provident Fund

In accordance with the Social Insurance Law of the People’s Republic of China (2018 Revision) (《中華人民共和國社會保險法》(2018修訂)) which was promulgated by the SCNPC on October 28, 2010 and was latest amended on December 29, 2018, with the latest revision effective on the same date, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, and maternity insurance. Employers failed to promptly contribute social security premiums in full amount shall be ordered by the social security premium collection agency to make or supplement contributions within a stipulated period, and shall be subject to a late payment fine computed from the due date at the rate of 0.05% per day; where payment is not made within the stipulated period, the relevant administrative authorities shall impose a fine ranging from one to three times the amount of the amount in arrears.

In accordance with the Regulations on the Administration of Housing Provident Fund (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 was latest amended on March 24, 2019, with the latest revision effective on the same date, an employer shall make registration of contribution to the housing provident fund with the housing provident fund management center, and go through the formalities of opening housing provident fund accounts on behalf of its employees. And an employer fails to undertake contribution registration of housing provident fund or fails to go through the formalities of opening housing provident fund accounts for its employees, the housing provident fund management center shall order it to go through the formalities within a prescribed time limit; where failing to do so at the expiration of the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 shall be imposed. An employer is overdue in the contribution of, or underpays, the housing provident fund, the housing provident fund management center shall order it to make the contribution within a prescribed time limit; where the contribution has not been made after the expiration of the time limit, an application may be made to a people’s court for compulsory enforcement.

REGULATIONS IN RELATION TO TAX

Enterprise Income Tax

In accordance with the Enterprise Income Tax Law of the People’s Republic of China (2018 Amendment) (《中華人民共和國企業所得稅法》(2018修正)) which was promulgated by the SCNPC on March 16, 2007, and was latest amended on December 29, 2018, with the latest revision effective on the same date and the Implementation Regulations for the Enterprise Income Tax Law of the People’s Republic of China (《中華人民共和國企業所得稅法實施條例》) which was promulgated by the State Council on December 6, 2007, and was latest amended on April 23, 2019, with the latest revision effective on the same date, a uniform income tax rate of 25% will be applied to resident enterprises and non-resident enterprises that have established institutions and premises in China. Besides, enterprises established within the PRC, enterprises established in accordance with the laws of other judicial districts whose “de facto management bodies” are within the PRC are considered “resident enterprises” and subject to the uniform 25% enterprise income tax rate for their income derived from both inside and outside the PRC. Corporate income tax for key advanced and new technology enterprises supported by PRC shall be at a reduced tax rate of 15%.

Value-added Tax

In accordance with 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)) which was promulgated by the State Council on December 13, 1993, and was latest amended on November 19, 2017, with the latest revision

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effective on the same date, the Detailed Rules for the Implementation Rules for the Provisional Regulations 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)) which was promulgated by the Ministry of Finance (財政部) on December 25, 1993, and was latest amended on October 28, 2011, with the latest revision effective on November 1, 2011, In accordance with the Decisions on Abolishing the PRC Provisional Regulations on Business Tax and Amending the PRC Provisional Regulations on Value-Added Tax (《國務院關於廢止〈中華人民共和國營業稅暫行條例〉和修改〈中華人民共和國增值稅暫行條例〉的決定》) which was promulgated by the State Council and effective on November 19, 2017 and the Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment to VAT Rates (《財政部、稅務總局關於調整增值稅稅率的通知》) which was promulgated by the Ministry of Finance and the State Administration of Taxation on April 4, 2018 and came into effect on May 1, 2018, entities and individuals selling goods, services and intangible assets in the People’s Republic of China are value added tax (“VAT”) taxpayers and shall pay value-added tax. Taxpayers selling services and intangible assets are subject to a tax rate of 6%, except in particular circumstances. If a taxpayer is engaged in sale subject to VAT at the previously applicable rate of 17%, the tax rate is reduced to 16%. In accordance with the Announcement on Policies for Deepening the VAT Reform (《關於深化增值稅改革有關政策的公告》) which was issued by the Ministry of Finance, State Taxation Administration and General Administration of Customs on March 20, 2019 and came into effect on April 1, 2019, if a general VAT taxpayer is engaged in a VAT taxable sale or imports goods at the previously applicable rate of 16%, the tax rate is reduced to 13% .

Urban Maintenance and Construction Tax

In accordance with Urban Maintenance and Construction Tax Law of People’s Republic of China (《中華人民共和國城市維護建設稅法》) which was promulgated by the SCNPC on August 11, 2020 and came effect on September 1, 2021 and the Notice of the State Council on Harmonizing the Urban Maintenance and Construction Tax and Educational Surcharges for Chinese and Foreign-funded Enterprises and Individuals (《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》) which was promulgated by the State Council on October 18, 2010 and latest effective on December 1, 2010, entities and individuals which are subject to consumption tax and VAT shall pay urban maintenance and construction tax. The tax rate is 7% for a taxpayer who is domiciled in a downtown area, and 5% for a taxpayer who is domiciled in a county or town, and 1% for a taxpayer who is domiciled outside a downtown area, county or town.

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We are a leading IP toy company in China, with a portfolio of over 100 proprietary and licensed IPs as of December 31, 2024. Since the launch of our brand in 2015, we have followed an IP-centric strategy, leveraging our acute insights into diverse consumer needs and comprehensive product development capabilities to continually develop engaging IP toys of multiple genres and in turn enhance the commercial value and influence of IPs. According to CIC, we are the second-largest multi-genre Chinese IP toy company in terms of China GMV in 2024, and the third-largest Chinese IP toy company overall by the same measure.

Our history can be traced back to July 2012, when our Company was established. We have since then been led by our co-founders, Mr. Chen and Mr. Huang, who are accomplished entrepreneurs in the toy industry. For the background and the relevant industry experience of Mr. Chen and Mr. Huang, see “Directors, Supervisors and Senior Management.”

KEY MILESTONES

The following table sets forth the key milestones of our corporate and business development.

<u>Year</u>	<u>Milestone events</u>
2015	<ul style="list-style-type: none">We launched our “52TOYS” brand in May 2015.
2016	<ul style="list-style-type: none">We hosted the 52TOYS original design competition under the theme of “Chinese Mythology” in January 2016.We launched BeastBox, the first domestic self-developed transformable mecha IP series targeting all age groups, in June 2016.
2017	<ul style="list-style-type: none">We expanded into the Japanese market, in cooperation with Good Smile Company (良笑社), in February 2017.We hosted our first large-scale model and toy art exhibition, Dream Fair (夢見市集), also known as the 2017 Beijing International Original Art and Designer Toy Exhibition, under the theme of “Original” in June 2017.
2018	<ul style="list-style-type: none">We launched the Modern Ancient Series in February 2018, targeting the cultural tourism market.We expanded into the U.S. market and participated in San Diego Comic-Con in July 2018.We entered into license agreements with Disney and several other leading international IP proprietors and licensors in October 2018.
2019	<ul style="list-style-type: none">We launched our first proprietary pop IP in April 2019.
2020	<ul style="list-style-type: none">We began IP licensing cooperation with Warner Bros in March 2020.Our first brand store was opened in Taikoo Li Sanlitun, Beijing in December 2020, marking the start of our brand store network.
2021	<ul style="list-style-type: none">We launched our action figure series in March 2021.

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<u>Year</u>	<u>Milestone events</u>
2022	<ul style="list-style-type: none"> We expanded our overseas e-commerce sales channels in June 2022. We organized our first 52TOYS Collector Toy Pavillion in Taikoo Li Sanlitun, Beijing in July 2022. Mr. Chen became the vice president of the China Toy & Juvenile Products Association (中國玩具和嬰童用品協會) and the chairman of the Trend and Collectible Toys Professional Committee, while our Company became the founding co-chair unit of the Trend and Collectible Toys Professional Committee.
2023	<ul style="list-style-type: none"> We launched Ben Ben, our first co-branded transformable toy under <i>Infinity BeastBox x The Wandering Earth 2</i> series, in January 2023. We launched our first wind-up toy series, Crayon Shin-chan’s Dynamic Shin-Life, in November 2023. It soon became a bestseller, subsequently topping <i>Tmall</i> and <i>TikTok</i>’s bestsellers list multiple times. Our first authorized brand store in Thailand opened in Bangkok in December 2023. We announced a plan to cultivate a content ecosystem with BeastBox as the core, and began collaboration with Wang Nuonuo (王諾諾), an award-winning Chinese sci-fi author, as our official novel author in December 2023.
2024	<ul style="list-style-type: none"> Our first authorized brand store in Malaysia opened in May 2024, first authorized brand store in North America opened in Atlanta in July 2024, first authorized brand store in Singapore opened in September 2024, and first authorized brand store in Taipei opened in September 2024.
2025	<ul style="list-style-type: none"> Our first authorized brand store in Indonesia opened in January 2025. We began comprehensive strategic collaboration with <i>Wanda Film</i> and <i>China Ruyi</i> in May 2025.

OUR PRINCIPAL SUBSIDIARIES

The following sets forth the information on our subsidiaries that have made material contribution to our operating results during the Track Record Period.

<u>Subsidiaries</u>	<u>Place of incorporation</u>	<u>Date of incorporation</u>	<u>Registered capital</u>	<u>Principal activities</u>
Suzhou Zeruofang	PRC	October 8, 2021	RMB30,000,000	Enterprise consultation
Tianjin Qingyunhe	PRC	December 18, 2019	RMB5,000,000	Sales of toys
Changxing Qingzhou Rufeng	PRC	August 7, 2023	RMB100,000	Sales of toys
52TOYS HK	Hong Kong	October 19, 2021	HK\$100	Sales of toys

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ESTABLISHMENT AND MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

1. Establishment of Our Company and Capital Increase in July 2017

On July 9, 2012, our Company was established as a limited liability company under the laws of the PRC, with an initial registered capital of RMB1,002,000. Since its establishment, our Company had undergone certain shareholding changes, upon completion of which and as of July 2017, the Company was owned by Mr. Chen, Mr. Huang, Mr. Bai Yanyan (白炎焱), an Independent Third Party, and Ms. Bai as to approximately 44.70%, 20.00%, 18.60% and 16.70%, respectively.

In July 2017, Beijing Huaao Longfeng Venture Capital Enterprise (Limited Partnership) (北京華澳龍豐創業投資企業(有限合夥)) (“Huaao Longfeng”), an Independent Third Party, subscribed for additional registered capital of our Company in the amount of RMB250,500 at the consideration of RMB15.00 million.

2. Equity Transfers and Series A Financing in January 2018

In January 2018, (1) Huaao Longfeng transferred registered capital of our Company in the amount of RMB181,000.00, RMB18,514.00, RMB15,148.00 and RMB35,838.00 to Suzhou Industrial Park Qiming Rongke Equity Investment Partnership Enterprise (Limited Partnership) (蘇州工業園區啟明融科股權投資合夥企業(有限合夥)) (“Suzhou Qiming Rongke”), Suzhou Hongdao No.5 Venture Capital Center (Limited Partnership) (蘇州弘道五號創業投資中心(有限合夥)) (“Suzhou Hongdao No. 5”), Chengdu Hongdao No. 5 Venture Investment Center (Limited Partnership) (成都弘道五號創業投資中心(有限合夥)) (“Chengdu Hongdao No. 5”) and Chongqing Shengmei No. 4 Film and Television Industry Equity Investment Fund Partnership Enterprise (Limited Partnership) (重慶盛美四號影視產業股權投資基金合夥企業(有限合夥)) (“Chongqing Shengmei No. 4”) at the consideration of RMB21,676,600.00, RMB2,217,294.63, RMB1,814,149.34 and RMB4,291,965.19, respectively; (2) Mr. Bai Yanyan transferred registered capital of our Company in the amount of RMB87,830.00, RMB90,455.00, RMB4,448.00 and RMB3,639.00 to Ningbo Meishan Bonded Port Area Zhichun Equity Investment Partnership (Limited Partnership) (寧波梅山保稅港區知春股權投資合夥企業(有限合夥)) (“Ningbo Zhichun”), Huzhou Yuekai Investment Management Partnership (Limited Partnership) (湖州悅凱投資管理合夥企業(有限合夥)) (“Huzhou Yuekai”), Suzhou Hongdao No.5 and Chengdu Hongdao No.5 at the consideration of RMB10,518,566.20, RMB10,832,876.80, RMB532,706.37 and RMB435,850.66, respectively. In May 2018, Suzhou Hongdao No.5 transferred all the registered capital of our Company held by it, amounting to RMB22,962.00, to Chengdu Hongdao No.5.

We completed the series A financing (the “Series A Financing”) in January 2018 through capital increases. In January 2018, Suzhou Qiming Rongke, Huzhou Yuekai, Chongqing Shengmei No. 4, and Ningbo Zhichun subscribed for additional registered capital of our Company in the amount of RMB143,438.00, RMB71,683.00, RMB28,401.00 and RMB69,603.00, at the consideration of RMB18,323,408.15, RMB9,157,123.22, RMB3,628,034.81 and RMB8,891,433.81, respectively. See “[REDACTED] Investments” for further details.

3. Series A+ Financing

We completed the series A+ financing (the “Series A+ Financing”) in March 2019 through capital increases. Suzhou Qiming Rongke and Three Thousand World (Kunshan) Cultural Industry Investment Partnership (Limited Partnership) (三千世界(昆山)文化產業投資合夥企業(有限合夥)) (“Three Thousand World”) subscribed for additional registered capital of our Company in the amount of RMB16,925.68 and RMB110,016.89, at the consideration of RMB3,000,000 and RMB19,500,000, respectively. See “[REDACTED] Investments” for further details.

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4. Series B Financing

We completed the series B financing (the “Series B Financing”) in February 2020 through capital increases. Suzhou Boxiang Equity Investment Partnership Enterprise (Limited Partnership) (蘇州博祥股權投資合夥企業 (有限合夥)) (“Suzhou Boxiang”), Suzhou Qingliu Growth Phase II Equity Investment Partnership (Limited Partnership) (蘇州清流成長二期股權投資合夥企業 (有限合夥)) (“Suzhou Qingliu”) and Ningbo Meishan Bonded Port District Qinghan Equity Investment Fund Partnership (Limited Partnership) (寧波梅山保稅港區清晗股權投資基金合夥企業 (有限合夥)) (“Ningbo Qinghan”) subscribed for additional registered capital of our Company in the amount of RMB92,154.34, RMB49,148.98 and RMB12,287.25, at the consideration of RMB30,000,000, RMB16,000,000 and RMB4,000,000, respectively. See “[REDACTED] Investments” for further details.

5. Equity Transfers in December 2020

In December 2020, (1) Chongqing Shengmei No. 4 transferred registered capital of our Company in the amount of RMB42,223.44 to CICC Cultural Consumption Industry Equity Investment Fund (Xiamen) Partnership Enterprise (Limited Partnership) (中金文化消費產業股權投資基金 (廈門) 合夥企業 (有限合夥)) (“CICC Cultural Consumption Fund”) at the consideration of RMB12,000,000; (2) Ningbo Zhichun transferred registered capital of our Company in the amount of RMB157,433.00 to CICC Cultural Consumption Fund at the consideration of RMB44,742,800; (3) Suzhou Qiming Rongke transferred registered capital of our Company in the amount of RMB28,148.96, RMB3,518.62 and RMB17,593.10 to Qianhai Equity Investment Fund (Limited Partnership) (前海股權投資基金 (有限合夥)) (“Qianhai Equity Fund”), Qianhai Ark Assets Management Co., Ltd. (前海方舟資產管理有限公司) (“Qianhai Ark”) and Zhejiang ZheShang Transformation and Upgrading Mother Fund Partnership Enterprise (Limited Partnership) (浙江浙商轉型升級母基金合夥企業 (有限合夥)) (“Zhesang Fund”) at the consideration of RMB8,000,000, RMB1,000,000 and RMB5,000,000, respectively; (4) Huzhou Yuekai transferred registered capital of our Company in the amount of RMB98,802.85, RMB28,148.96, RMB28,148.96 and RMB7,037.23 to Shenzhen Guozhong SME Development Private Equity Investment Fund Partnership (Limited Partnership) (深圳國中中小企業發展私募股權投資基金合夥企業 (有限合夥)) (“Shenzhen Guozhong Fund”), Qianhai Equity Fund, Zhongyuan Qianhai Equity Investment Fund (Limited Partnership) (中原前海股權投資基金 (有限合夥)) (“Zhongyuan Qianhai Fund”) and Qianhai Ark at the consideration of RMB28,080,000, RMB8,000,000, RMB8,000,000 and RMB2,000,000, respectively; (5) Three Thousand World transferred registered capital of our Company in the amount of RMB17,593.10, RMB17,593.10, RMB7,037.23 and RMB10,555.86 to Zhesang Fund, Shenzhen Guozhong Fund, CICC Cultural Fund and Mr. Yi Jianlian (易建聯) at the consideration of RMB5,000,000, RMB5,000,000, RMB2,000,000 and RMB3,000,000, respectively.

6. Equity Transfers in March 2021

In March 2021, (1) Three Thousand World transferred registered capital of our Company in the amount of RMB38,704.82 and RMB18,532.77 to Tianjin Tangdi Zhihua Management Consulting Partnership Enterprise (Limited Partnership) (天津棠棣之華管理諮詢合夥企業 (有限合夥)) (“Tianjin Tangdi Zhihua”) and Kunshan Three Thousand World Sagittarius Venture Investment Partnership Enterprise (Limited Partnership) (昆山三千世界射手座創業投資合夥企業 (有限合夥)) (“Kunshan Sagittarius”) at the consideration of RMB20,000,000 and RMB9,600,000, respectively. Tianjin Tangdi Zhihua is owned as to 0.1% by Ms. Zeng (the spouse of Mr. Chen) as its general partner, 49.95% by Mr. Chen as its limited partner and 49.95% by Mr. Huang as its limited partner; (2) Suzhou Qiming Rongke transferred registered capital of our Company in the amount of RMB19,352.41 to Tianjin Tangdi Zhihua at the consideration of RMB10,000,000; (3) Mr. Yi Jianlian transferred registered capital of our Company in the amount of RMB10,555.86 to Shengjun Jujia (Xiamen) Equity Investment Partnership Enterprise (Limited Partnership) (聖俊駒嘉 (廈門) 股權投資合夥企業 (有限合夥)) (“Shengjun Jujia”) at the consideration of RMB3,000,000; (4) Chengdu Hongdao No. 5 transferred registered capital of our Company in the amount of RMB38,704.82 to Shanghai Weiyue Enterprise Management Consulting Partnership Enterprise (Limited Partnership) (上海蔚月企業管理諮詢合夥企業 (有限合夥)) (“Shanghai Weiyue”) at the consideration of RMB20,000,000.

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7. Equity Transfers and Series C Financing in September 2021

In September 2021, (1) Shanghai Weiyue transferred registered capital of our Company in the amount of RMB3,870.48, RMB18,246.55, RMB8,293.89, RMB4,146.95 and RMB4,146.95 to Guozhong Private Equity Investment Fund (Xi'an) Partnership (Limited Partnership) (國中私募股權投資基金(西安)合夥企業(有限合夥)) (“Xi'an Guozhong Fund”), Qianhai Equity Fund, Zhongyuan Qianhai Fund, Qianhai Ark and Zhuhai Hewang Investment Partnership Enterprise (Limited Partnership) (珠海合望投資合夥企業(有限合夥)) (“Zhuhai Hewang”) at the consideration of RMB7,172,000, RMB33,810,800, RMB15,368,600, RMB7,684,300 and RMB7,684,300, respectively; (2) Tianjin Tangdi Zhihua transferred registered capital of our Company in the amount of RMB11,311.10, RMB7,194.82, RMB3,270.37, RMB1,635.19, RMB1,635.19, RMB4,084.50, RMB6,938.55, RMB6,175.30 to Xi'an Guozhong Fund, Qianhai Equity Fund, Zhongyuan Qianhai Fund, Qianhai Ark, Zhuhai Hewang, Qingdao Runren Equity Investment Partnership Enterprise (Limited Partnership) (青島潤仁股權投資合夥企業(有限合夥)) (“Qingdao Runren”), Suzhou Boxiang and CICC Cultural Consumption Fund at the consideration of RMB20,959,500, RMB13,332,000, RMB6,060,000, RMB3,030,000, RMB3,030,000, RMB7,568,600, RMB12,857,100 and RMB11,442,800, respectively.

We completed the series C financing (the “Series C Financing”) in September 2021 through capital increases. In September 2021, Shenzhen JianGu Equity Investment Fund Enterprise (Limited Partnership) (深圳兼固股權投資基金企業(有限合夥)) (“Shenzhen JianGu”), Xi'an Guozhong Fund, Qianhai Equity Fund, Zhongyuan Qianhai Fund, Qianhai Ark, Zhuhai Hewang, Qingdao Runren, Suzhou Boxiang and CICC Cultural Fund subscribed for additional registered capital of our Company in the amount of RMB24,190.51, RMB18,147.00, RMB30,410.96, RMB13,823.14, RMB6,911.57, RMB6,911.57, RMB4,882.32, RMB8,293.91 and RMB7,31.59 at the consideration of RMB50,000,000.00, RMB37,508,500.00, RMB62,857,200.00, RMB28,571,400.00, RMB14,285,700.00, RMB14,285,700.00, RMB10,091,400.00, RMB17,142,900.00 and RMB15,257,200.00, respectively. See “[REDACTED] Investments” for further details.

8. Conversion into a Joint Stock Company in June 2022

On June 15, 2022, our Company was converted from a limited liability company into a joint stock company with limited liability. Based on the audited net assets of the Group as of August 31, 2021, our Company converted all registered capital of the limited liability company into the Shares of the joint stock company at a ratio of 45.7469:1. Upon completion of such a conversion, the registered share capital of our Company was RMB10,000,000.00 divided into 10,000,000 Shares with a nominal value of RMB1.00 each, which was subscribed by all our then Shareholders in proportion to their respective equity interests in our Company before conversion.

9. Equity Transfer in December 2023

In December 2023, Kunshan Sagittarius transferred 45,066 Shares held by it to Tianjin Zhiqiu Enterprise Management Consulting Partnership (General Partnership) (天津知秋企業管理諮詢合夥企業(普通合夥)) (“Tianjin Zhiqiu”) for a consideration of RMB6,000,000.

10. Equity Transfers and Series C+ Financing in May 2025

Pursuant to share transfer agreements dated April 7, 2025 and March 31, 2025, Suzhou Qiming Rongke and Zheshang Fund transferred 254,000 Shares and 171,123 Shares to Tianjin Tangdi Zhihua at the consideration of RMB25,400,000 and RMB17,112,300, respectively. Pursuant to a share transfer agreement dated May 2, 2025, Mr. Chen transferred 100,000 Shares to Mr. Wang Xiwen (王希文), an Independent Third Party, at the consideration of RMB10,000,000. Pursuant to share transfer agreements dated May 13, 2025, (1) Tianjin Tangdi Zhihua transferred 272,754 Shares and 204,565 Shares to Beijing Piaoplus E-Commerce Co., Ltd. (北京影時光電子商務有限公司) (“Piaoplus”) and Shanghai Ruyi Xingchen Enterprise Management Co., Ltd. (上海儒意星辰企業管理有限公司) (“Ruyi Xingchen”) at the consideration of

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RMB27,275,400 and RMB20,456,500, respectively; (2) Shenzhen JianGu transferred 67,227 Shares and 50,420 Shares to Piaoplus and Ruyi Xingchen at the consideration of RMB28,571,400 and RMB21,428,600, respectively; (3) Qianhai Equity Fund transferred 7,995 Shares and 5,996 Shares to Piaoplus and Ruyi Xingchen at the consideration of RMB3,397,700 and RMB2,548,300, respectively; (4) Zhongyuan Qianhai Fund transferred 3,634 Shares and 2,725 Shares to Piaoplus and Ruyi Xingchen at the consideration of RMB1,544,400 and RMB1,158,300, respectively; (5) Qianhai Ark transferred 1,817 Shares and 1,363 Shares to Piaoplus and Ruyi Xingchen at the consideration of RMB772,200 and RMB579,100, respectively; (6) Zhuhai Hewang transferred 6,723 Shares and 5,042 Shares to Piaoplus and Ruyi Xingchen at the consideration of RMB2,857,100 and RMB2,142,900, respectively; (7) Qingdao Runren transferred 10,756 Shares and 8,067 Shares to Piaoplus and Ruyi Xingchen at the consideration of RMB4,571,400 and RMB3,428,600, respectively. The above share transfers were completed in May 2025.

We completed the series C+ financing (the “Series C+ Financing”) in May 2025 through capital increases. Piaoplus and Ruyi Xingchen subscribed for 31,284 new Shares and 23,464 new Shares at the consideration of RMB13,296,000 and RMB9,972,000, respectively. See “[REDACTED] Investments” for further details.

11. Capitalization of Capital Reserve in May 2025

In May 2025, our Shareholders passed a resolution and approved the capitalization of the capital reserve of our Company, pursuant to which, the Company issued new Shares to all the then Shareholders at a ratio of approximately 4.97 new Shares for every 1 existing Share held by the then Shareholders. The capitalization of capital reserve was completed on May 16, 2025. Upon the completion of such capitalization, the registered capital of our Company was increased to RMB50,000,000.

12. PRC Legal Advisers’ Confirmation

As advised by our PRC Legal Advisers, our Company has made all necessary registrations or filings with the relevant local branch of SAMR in respect of the transfers, capital increases and issuances of Shares set out above in all material respects.

MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

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

[REDACTED] INVESTMENTS

Overview

Our Company obtained several rounds of investments, including Series A Financing, Series A+ Financing, Series B Financing, Series C Financing and Series C+ Financing from the [REDACTED] Investors through subscriptions for increased registered capital of our Company and equity transfers. See “—Establishment and Major Shareholding Changes of Our Company” for details.

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Principal Terms of the [REDACTED] Investments

The following table summarizes the key terms of the [REDACTED] Investments:

	Series A Financing	Series A+ Financing	Series B Financing	Series C Financing	Series C+ Financing
Date of agreements	January 10, 2018	February 25, 2019	January 6, 2020	July 23, 2021 August 4, 2021	May 13, 2025
Date of full settlement of consideration⁽¹⁾	February 12, 2018	April 29, 2019	March 6, 2020	August 27, 2021	May 16, 2025
Amount of registered capital/ number of Shares subscribed for	RMB313,125	RMB126,943	RMB153,591	RMB120,953	54,748 Shares
Consideration received by the Group	RMB40.00 million	RMB22.50 million	RMB50 million	RMB250 million	RMB23.27 million
Approximate post-money valuation of our Company⁽²⁾	RMB200.00 million	RMB300.00 million	RMB630.00 million	RMB4,250.00 million	RMB4,273.29 million
Cost per Share⁽³⁾	RMB5.28	RMB7.33	RMB13.46	RMB85.47	RMB85.47
Basis of consideration	The consideration for the [REDACTED] Investments which involved increase of our registered capital or issue of new Shares and in which the Company was a party was determined based on arm’s length negotiation between our Company and the relevant [REDACTED] Investors, after taking into consideration the timing of the investments, and the operating results and prospects of our business and operating entities.				
Discount to the [REDACTED]	[REDACTED]				
Lock-up period	All existing Shareholders (including the [REDACTED] investors) are subject to a lock-up period of 12 months following the [REDACTED] according to the applicable PRC law.				
Use of proceeds	The gross proceeds from the [REDACTED] Investments involving increase of our registered capital amounted to approximately RMB385.77 million, which had been primarily utilized for the business expansion and other working capital purposes of our Company in compliance with applicable laws.				

As of the Latest Practicable Date, approximately 80% of the net proceeds from the [REDACTED] Investments had been utilized. We will utilize such proceeds for our operations and further development of our Group’s principal business as a supplement to the intended uses of [REDACTED] from the [REDACTED].

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	Series A Financing	Series A+ Financing	Series B Financing	Series C Financing	Series C+ Financing
Strategic benefits	Our Directors were of the view that (i) our Group would benefit from the additional capital provided by the [REDACTED] Investors; (ii) our Group could benefit from the [REDACTED] Investors’ knowledge and experience and take advantage of their industry resources and networks, while at the same time broaden our shareholder base; (iii) the [REDACTED] Investors’ investment demonstrated their confidence in our Group and served as an endorsement of our performance, strengths and prospects.				

Notes:

- (1) This refers to the timing of last payment made by the relevant [REDACTED] Investor(s) in the relevant series of [REDACTED] Investments.
- (2) The post-money valuation refers to the cost per additional registered capital paid to our Company in the corresponding series of [REDACTED] Investment, multiplied by the amount of registered capital of our Company immediately after the completion of the corresponding series of [REDACTED] Investment.
- (3) The cost per Share of each series of [REDACTED] Investment is calculated by dividing the total amount of consideration by the amount of increased registered capital subscribed by the relevant [REDACTED] Investors in the corresponding series of [REDACTED] Investment, and adjusted with reference to the share conversion rate under the Company’s conversion from a limited liability company to a joint stock company in June 2022 and the capitalization of capital reserve in May 2025. See “—Establishment and Major Shareholding Changes of Our Company—8. Conversion into a Joint Stock Company in June 2022” for details.
- (4) The discount to the [REDACTED] is calculated based on the foreign exchange rate as set out in this document and assuming the [REDACTED] is HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] range).
- (5) Certain of our [REDACTED] Investors have subsequently transferred the registered capital or Shares. To the best knowledge of our Company, the consideration for the transfers of registered capital or Shares was determined among the relevant [REDACTED] Investors upon their respective arm’s length negotiation. No proceeds were received by our Company from such transfers. See “—Establishment and Major Shareholding Changes of Our Company” for further details.

Special Rights of the [REDACTED] Investors

The [REDACTED] Investors had been granted with customary special rights, including, among others, priority at liquidation, preemptive subscription rights, rights of first refusal, co-sale rights, information rights, redemption rights, anti-dilution rights, and director nomination rights. Pursuant to a shareholders’ agreement entered into between our Company and the Shareholders (including the [REDACTED] Investors) dated May 13, 2025 (the “Shareholders’ Agreement”), all special rights had been terminated immediately before the submission of the application for the Listing to the Stock Exchange, provided that all such special rights shall be automatically reinstated upon the occurrence of the following events (whichever is the earliest): (i) the Listing application is withdrawn voluntarily by the Company; (ii) the Listing application lapses; or (iii) the Listing application is explicitly rejected by the relevant approval authorities.

In addition, pursuant to the Shareholders’ Agreement, all the [REDACTED] Investors or their close associates shall have an anti-dilution right to subscribe, at the [REDACTED] pursuant to the [REDACTED], for such number of the H Shares to be issued by our Company as part of the [REDACTED] so as to maintain their respective percentages of shareholding interest in our Company immediately before the [REDACTED], subject to the compliance with the relevant rules and regulations.

Joint Sponsors’ Confirmation

On the basis that (i) the considerations for the [REDACTED] Investments were settled no less than 120 clear days before the [REDACTED] and (ii) the special rights granted to the [REDACTED] Investors had been terminated prior to the submission of the application for the Listing to the Stock Exchange, the Joint Sponsors confirm that the [REDACTED] Investments are in compliance with chapter 4.2 of the Guide for New Listing Applicants issued by the Stock Exchange.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Information about Our [REDACTED] Investors

To the best knowledge of the Directors, save as disclosed in this document, each of the [REDACTED] Investors is an Independent Third Party. Set out below is a description of our [REDACTED] Investors.

Suzhou Qiming Rongke

Suzhou Qiming Rongke is a limited partnership established under the laws of the PRC, which is principally engaged in equity investment. Suzhou Qiming Rongke is owned as to approximately 1.11% by its general partner, Suzhou Qiping Investment Management Partnership Enterprise (Limited Partnership) (蘇州啟平投資管理合夥企業(有限合夥)), whose general partner is Suzhou Qiman Investment Management Co., Ltd. (蘇州啟滿投資管理有限公司) holding approximately 3.85% partnership interest therein, which is ultimately controlled by Ms. Yu Jia (于佳) and Mr. Hu Xubo (胡旭波). Suzhou Qiming Rongke has 24 limited partners, none of which holds more than 30% partnership interest therein.

To the best knowledge of the Directors, each of Suzhou Qiming Rongke and its ultimate beneficial owners is an Independent Third Party.

CICC Cultural Consumption Fund

CICC Cultural Consumption Fund is a limited partnership established under the laws of the PRC, which is principally engaged in equity investment, investment management, asset management and related consulting services. CICC Cultural Consumption Fund is managed by its general partner, CICC Capital Management Co., Ltd. (中金資本運營有限公司), which is wholly owned by China International Capital Corporation Limited (中國國際金融股份有限公司), a joint stock company incorporated in the PRC whose shares are listed on the Shanghai Stock Exchange (stock code: 601995) and the Hong Kong Stock Exchange (stock code: 3908). CICC Cultural Consumption Fund has 18 limited partners, none of which holds more than 30% partnership interest therein.

To the best knowledge of the Directors, each of CICC Cultural Consumption Fund and its ultimate beneficial owners is an Independent Third Party.

Qianhai Investment

Qianhai Equity Fund is a limited partnership established under the laws of the PRC, which is principally engaged in equity investment fund management, venture capital business, equity investment, investment in other equity investment funds, entrusted management of investment funds, investment consulting and planning, investment management, entrusted asset management, enterprise management consulting, and enterprise management planning. Qianhai Equity Fund is owned as to (i) approximately 1.05% by Qianhai Ark as its general partner, and (ii) approximately 98.95% by other 49 limited partners, none of which holds more than 30% partnership interest therein.

Qianhai Ark is a company established under the laws of the PRC with limited liability, which is principally engaged in private equity investment fund management, venture capital fund management services. Qianhai Ark is owned as to (i) approximately 58.71% by Shenzhen Qianhai Huaize Ark Venture Capital Enterprise (Limited Partnership) (深圳前海淮澤方舟創業投資企業(有限合夥)), which is ultimately controlled by Mr. Jin Haitao (靳海濤), and (ii) approximately 41.29% by ten other shareholders, none of which holds more than 30% equity interest therein.

Zhongyuan Qianhai Fund is a limited partnership established under the laws of the PRC, which is principally engaged in non-securities equity investment and related consulting services. Zhongyuan Qianhai Fund is owned as to (i) approximately 1.51% by Qianhai Ark (Zhengzhou) Venture Capital Management

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Enterprise (Limited Partnership) (前海方舟 (鄭州) 創業投資管理企業 (有限合夥)) as its general partner, which is ultimately controlled by Qianhai Ark, and (ii) approximately 98.49% by other 20 limited partners, none of which holds more than 30% partnership interest therein.

To the best knowledge of the Directors, each of Qianhai Equity Fund, Qianhai Ark, Zhongyuan Qianhai Fund and their ultimate beneficial owners is an Independent Third Party.

Guozhong Fund

Shenzhen Guozhong Fund is a limited partnership established under the laws of the PRC, which is principally engaged in equity investment, venture capital, investment management, and asset management. Shenzhen Guozhong Fund is owned as to 1% by its general partner, Shenzhen Guozhong Venture Capital Management Co., Ltd. (深圳國中創業投資管理有限公司), which is ultimately controlled by Mr. Shi Anping (施安平). Shenzhen Guozhong Fund has eight limited partners, none of which holds more than 30% partnership interest therein.

Xi'an Guozhong Fund is a limited partnership established under the laws of the PRC, which is principally engaged in equity investment, investment management, asset management, private equity investment fund management, venture capital fund management services, and venture capital. Xi'an Guozhong Fund is owned as to (i) 1% by Shenzhen Guozhong Changrong Asset Management Co., Ltd. (深圳國中常榮資產管理有限公司) as its general partner, which is ultimately controlled by Mr. Shi Anping, (ii) approximately 33.33% by National Small and Medium Sized Enterprise Development Fund Co., Ltd. (國家中小企業發展基金有限公司) as its largest limited partner, which is ultimately controlled by Ministry of Finance of the People's Republic of China (中華人民共和國財政部), and (iii) approximately 65.67% by other eight limited partners, none of which holds more than 30% partnership interest therein.

To the best knowledge of the Directors, each of Shenzhen Guozhong Fund, Xi'an Guozhong Fund and their ultimate beneficial owners is an Independent Third Party.

Suzhou Boxiang

Suzhou Boxiang is a limited partnership established under the laws of the PRC, which is principally engaged in equity investment, program investment, investment management, and industrial investment. Suzhou Boxiang is owned as to 1% by its general partner, Shanghai Boxiu Enterprise Management Partnership (Limited Partnership) (上海博秀企業管理合夥企業 (有限合夥)), which is held as to (i) 1% by Shanghai Xintong Boda Private Equity Fund Management Co., Ltd. (上海新瞳博達私募基金管理有限公司) as its general partner, which is ultimately controlled by Shen Jiarong (沈佳榮), (ii) 44% by Beijing Weimeng Innovation Venture Capital Management Co., Ltd. (北京微夢創科創業投資管理有限公司) as its limited partner, which is ultimately controlled by Liu Yunli (劉運利) and Mr. Wang Wei (王巍), (iii) 35% by Shen Jiarong as its limited partner, and (iv) 20% by Liu Yunli as its limited partner.

Suzhou Boxiang has ten limited partners, namely (i) Beijing Weimeng Innovation Venture Capital Management Co., Ltd., holding 40% partnership interest therein; and (ii) other nine limited partners, none of which holds more than 30% partnership interest therein.

To the best knowledge of the Directors, each of Suzhou Boxiang and its ultimate beneficial owners is an Independent Third Party.

Piaoplus

Piaoplus is a company established under the laws of the PRC with limited liability, which is principally engaged in internet retail. Piaoplus is owned as to 100% by WANDA Film Holding Co., Ltd. (萬達電影股份有限公司), which is a joint stock company incorporated in the PRC whose shares are listed on the Shenzhen Stock Exchange (stock code: 002739).

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

To the best knowledge of the Directors, each of Piaoplus and its ultimate beneficial owners is an Independent Third Party.

Ruyi Xingchen

Ruyi Xingchen is a company established under the laws of the PRC with limited liability, which is principally engaged in enterprise management consulting and corporate image planning. Ruyi Xingchen is wholly owned by Shanghai Ruyi Film and Television Production Co., Ltd. (上海儒意影視製作有限公司), a consolidated affiliated entity of China Ruyi Holdings Limited, which is a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange (stock code: 136).

To the best knowledge of the Directors, each of Ruyi Xingchen and its ultimate beneficial owners is an Independent Third Party.

Suzhou Qingliu and Ningbo Qinghan

Suzhou Qingliu is a limited partnership established under the laws of the PRC. Its general partner and investment manager is Zhuhai Qingliu Hesheng Private Equity Fund Management Co., Ltd. (珠海清流和盛私募基金管理有限公司) (“Zhuhai Qingliu”), a private fund management company established under the laws of the PRC ultimately controlled by Ms. Wang Mengqiu (王夢秋), which holds approximately 0.25% interests in Suzhou Qingliu. No limited partner of Suzhou Qingliu holds more than one-third of the limited partnership interest.

Ningbo Qinghan is a limited partnership established under the laws of the PRC. Its general partner is Ningbo Meishan Bonded Port Area Qinghan Gaoyuan Enterprise Management Partnership Enterprise (Limited Partnership) (寧波梅山保稅港區清晗高源企業管理合夥企業 (有限合夥)), which holds approximately 10% interests in Ningbo Qinghan, and its investment manager is Zhuhai Qingliu. No limited partner of Ningbo Qinghan holds more than one-third of the limited partnership interest.

To the best knowledge of the Directors, Suzhou Qingliu, Ningbo Qinghan and their ultimate beneficial owners is an Independent Third Party.

Chongqing Shengmei No. 4

Chongqing Shengmei No. 4 is a limited partnership established under the laws of the PRC, which is principally engaged in equity investment. Chongqing Shengmei No. 4 is owned as to 0.25% by its general partner, Chongqing Shengmei Equity Investment Fund Management Co., Ltd. (重慶盛美股權投資基金管理有限公司) (“Chongqing Shengmei”), which in turn is held as to (i) 60% by SJ Jiacheng Investment Management Co., Ltd. (北京盛景嘉成投資管理有限公司), which is ultimately controlled by Mr. Peng Zhiqiang (彭志強) and (ii) 40% by Tianjin Perfect Culture Communication Co., Ltd. (天津完美文化傳播有限公司), which is ultimately controlled by Perfect World Co., Ltd. (完美世界股份有限公司), a joint stock company incorporated in the PRC whose shares are listed on the Shenzhen Stock Exchange (stock code: 002624).

Chongqing Shengmei No. 4 is owned as to approximately 99.75% by its sole limited partner, Chongqing Shengying No.2 Film and Television Industry Private Equity Investment Fund Partnership Enterprise (Limited Partnership) (重慶盛影二號影視產業私募股權投資基金合夥企業 (有限合夥)), which in turn is held as to (i) approximately 0.70% by its general partner, Chongqing Shengying Equity Investment Fund Management Co., Ltd. (重慶盛影股權投資基金管理有限公司), which is ultimately controlled by Mr. Chi Yufeng (池宇峰), (ii) approximately 0.15% by Chongqing Shengmei; (iii) approximately 54.25% by Chongqing Shengying No.1 Cultural Industry Equity Investment Fund Partnership Enterprise (Limited Partnership) (重慶盛影一號文化產業股權投資基金合夥企業 (有限合夥)), which is ultimately controlled by Mr. Chi Yufeng, and (iv) approximately 44.9% by other four limited partners, none of which holds more than 30% partnership interest therein.

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To the best knowledge of the Directors, each of Chongqing Shengmei No. 4 and its ultimate beneficial owners is an Independent Third Party.

Shengjun Jujia

Shengjun Jujia is a limited partnership established under the laws of the PRC, which is principally engaged in investment in non-publicly traded corporate equity and related consulting services. Shengjun Jujia is owned as to (i) 50% by Ms. Jing Ling (荆靈) as its general partner and (ii) 50% by Mr. Yi Jianlian as its limited partner.

To the best knowledge of the Directors, each of Shengjun Jujia and its ultimate beneficial owners is an Independent Third Party.

Zhuhai Hewang

Zhuhai Hewang is a limited partnership established under the laws of the PRC, which is principally engaged in investment activities with own funds, business management, and information consulting services. Zhuhai Hewang is owned as to (i) approximately 0.04% by Lin Songjing (林松菁) as its general partner, (ii) approximately 79.97% by Shanghai Guoqing Investment Management Partnership Enterprise (Limited Partnership) (上海國磬投資管理合夥企業 (有限合夥)) as its limited partner, which is in turn controlled by Tan Qiyuan (譚祈源), and (iii) approximately 19.99% by Ms. Cao Wen (曹雯) as its limited partner.

To the best knowledge of the Directors, each of Zhuhai Hewang and its ultimate beneficial owners is an Independent Third Party.

Tianjin Zhiqu

Tianjin Zhiqu is a general partnership established under the laws of the PRC, which is principally engaged in enterprise management consulting, literary and artistic creation, professional design services, technical services, advertising design and agency, organizing cultural and artistic exchange activities, and conference and exhibition services. Tianjin Zhiqu is owned as to (i) 8% by Yuan Shuang (袁爽) as its managing partner, and (ii) 92% by eight other general partners, none of which holds more than 30% partnership interest therein.

To the best knowledge of the Directors, each of Tianjin Zhiqu and its ultimate beneficial owners is an Independent Third Party.

Kunshan Sagittarius

Kunshan Sagittarius is a limited partnership established under the laws of the PRC, which is principally engaged in non-securities equity investment and related consulting services. Kunshan Sagittarius is owned as to (i) 7.69% by Beijing Three Thousand Investment Management Partnership Enterprise (Limited Partnership) (北京三千投資管理合夥企業 (有限合夥)) as its general partner, which is ultimately controlled by Mr. Huang Huang (黃璜) and (ii) 92.31% by Ms. Ma Lifei (馬莉菲).

To the best knowledge of the Directors, each of Kunshan Sagittarius and its ultimate beneficial owners is an Independent Third Party.

Qingdao Runren

Qingdao Runren is a limited partnership established under the laws of the PRC, which is principally engaged in investment activities, enterprise management and related consulting, software development, information technology consulting services, marketing planning, financial consulting, tax services and

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

corporate headquarters management. Qingdao Runren is owned as to (i) 20% by its general partner, Qingdao Deshengxiang Enterprise Management Service Center (Limited Partnership) (青島德晟祥企業管理服務中心(有限合夥)), which is in turn held as to 50% by Liu Kaitao (劉開濤) as its general partner and 50% by Chen Ziyi (陳子一) as its limited partner, (ii) 60% by Liu Kaitao as its limited partner, and (iii) 20% by another limited partner.

To the best knowledge of the Directors, each of Qingdao Runren and its ultimate beneficial owners is an Independent Third Party.

Chengdu Hongdao No.5

Chengdu Hongdao No.5 is a limited partnership established under the laws of the PRC, which is principally engaged in equity investment. Chengdu Hongdao No.5 is owned as to approximately 1.77% by its general partner, Beijing Dongfang Hongdao Asset Management Co., Ltd. (北京東方弘道資產管理有限責任公司), which is controlled by Mr. Yang Zhenghong (楊正宏).

Chengdu Hongdao No.5 has seven limited partners, namely (i) Jiaxing Jiatong No.1 Equity Investment Partnership Enterprise (Limited Partnership) (嘉興嘉同一號股權投資合夥企業(有限合夥)), holding approximately 48.48% partnership interests therein; and (ii) other six limited partners, none of which holds more than 30% partnership interest therein. The general partner of Jiaxing Jiatong No.1 Equity Investment Partnership Enterprise (Limited Partnership) is Beijing Dongfang Hongdao Asset Management Co., Ltd., and none of its limited partners holds more than 30% partnership interest therein.

To the best knowledge of the Directors, each of Chengdu Hongdao No.5 and its ultimate beneficial owners is an Independent Third Party.

EMPLOYEE OWNERSHIP PLATFORM

In recognition of the contributions of our key employees and to incentivize them to further promote our development, the Company adopted the Employee Incentive Scheme in September 2019 and Tianjin 52 Jiqu was established as a limited partnership under the laws of the PRC as our employee ownership platform. As of the Latest Practicable Date, the general partner of Tianjin 52 Jiqu is Tianjin Huhu Shengwei Culture Development Co., Ltd. (天津虎虎生威文化發展有限公司), which is wholly owned by Mr. Wang Yin (汪寅), the senior director of product department of the Company.

As of the Latest Practicable Date, Tianjin 52 Jiqu was interested in approximately 4.57% of the total issued Shares. Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Tianjin 52 Jiqu will be interested in approximately [REDACTED]% of the total issued Shares.

The Employee Incentive Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as it does not involve any grant of share options or awards or any issuance of new Shares by our Company after Listing. For further details of our employee ownership platform and the Employee Incentive Scheme, see “Appendix VI—Statutory and General Information—D. Employee Incentive Scheme” to this document.

CONCERT PARTY ARRANGEMENT AND OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

On May 8, 2020, Mr. Chen, Mr. Huang and Ms. Bai entered into the Concert Party Agreement, pursuant to which, Mr. Huang and Ms. Bai confirmed and agreed that, since January 1, 2018, they had acted and will continue to act in concert with Mr. Chen when exercising their shareholder rights or those of entities under their control as shareholder(s) of the Company, by following Mr. Chen’s instructions. Such act-in-concert arrangement will remain in effect so long as the parties continue to hold, directly or indirectly, an interest in the Shares. Ms. Zeng, the spouse of Mr. Chen, is interested in approximately 0.25% of the Shares by virtue of her role as the general partner of Tianjin Tangdi Zhihua. Accordingly, the Concert Party Group, Ms. Zeng and Tianjin Tangdi Zhihua constitute our Single Largest Group of Shareholders.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

As of the Latest Practicable Date, the Single Largest Group of Shareholders were collectively interested in approximately 37.06% of the Shares, and will hold approximately [REDACTED]% of the Shares immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised). Therefore, upon Listing, they will remain as our Single Largest Group of Shareholders and our Company will not have any controlling shareholders as defined under the Listing Rules.

CAPITALIZATION OF OUR COMPANY

The following table sets out our shareholding structure (a) as of the date of the Latest Practicable Date and (b) immediately upon the completion of the [REDACTED] and the Conversion of Unlisted Shares, assuming the [REDACTED] is not exercised:

Shareholder	As of the Latest Practicable Date		Upon completion of the [REDACTED] and the Conversion of Unlisted Shares		Whether the H Shares count towards public float or not
	Number of Shares	Percentage of shareholding	Number of H Shares	Percentage of shareholding	
Single Largest Group of Shareholders					
Mr. Chen	9,516,081	19.03%	[REDACTED]	[REDACTED]	No
Mr. Huang	4,846,546	9.69%	[REDACTED]	[REDACTED]	No
Ms. Bai	4,046,869	8.09%	[REDACTED]	[REDACTED]	No
Tianjin Tangdi Zhihua	122,847	0.25%	[REDACTED]	[REDACTED]	No
Suzhou Qiming Rongke	5,333,202	10.67%	[REDACTED]	[REDACTED]	Yes
CICC Cultural Consumption Fund	5,326,623	10.65%	[REDACTED]	[REDACTED]	Yes
Qianhai Investment					
Qianhai Equity Fund	2,642,712	5.29%	[REDACTED]	[REDACTED]	Yes
Zhongyuan Qianhai Fund	1,263,120	2.53%	[REDACTED]	[REDACTED]	Yes
Qianhai Ark	546,463	1.09%	[REDACTED]	[REDACTED]	Yes
Guozhong Fund					
Shenzhen Guozhong Fund	2,814,964	5.63%	[REDACTED]	[REDACTED]	Yes
Xi'an Guozhong Fund	806,032	1.61%	[REDACTED]	[REDACTED]	Yes
Suzhou Boxiang	2,597,081	5.19%	[REDACTED]	[REDACTED]	Yes
Tianjin 52 Jiqu	2,283,667	4.57%	[REDACTED]	[REDACTED]	Yes
Piaoplus	2,000,001	4.00%	[REDACTED]	[REDACTED]	Yes
Ruyi Xingchen	1,499,998	3.00%	[REDACTED]	[REDACTED]	Yes
Suzhou Qingliu and Ningbo Qinghan					
Suzhou Qingliu	1,188,637	2.38%	[REDACTED]	[REDACTED]	Yes
Ningbo Qinghan	297,158	0.59%	[REDACTED]	[REDACTED]	Yes
Ms. Zhang Xiaofang (張瀟方) ⁽¹⁾	689,411	1.38%	[REDACTED]	[REDACTED]	Yes
Chongqing Shengmei No. 4	532,435	1.06%	[REDACTED]	[REDACTED]	Yes
Mr. Wang Xiwen	497,278	0.99%	[REDACTED]	[REDACTED]	Yes
Shengjun Jujia	255,287	0.51%	[REDACTED]	[REDACTED]	Yes
Zhuhai Hewang	248,485	0.50%	[REDACTED]	[REDACTED]	Yes
Tianjin Zhiqiu	224,103	0.45%	[REDACTED]	[REDACTED]	Yes
Kunshan Sagittarius	224,098	0.45%	[REDACTED]	[REDACTED]	Yes
Qingdao Runren	123,255	0.25%	[REDACTED]	[REDACTED]	Yes
Chengdu Hongdao No.5	73,647	0.15%	[REDACTED]	[REDACTED]	Yes
Public Shareholders taking part in the [REDACTED]	—	—	[REDACTED]	[REDACTED]	Yes
Total	50,000,000	100%	[REDACTED]	100%	

Note:

(1) The Shares held by Ms. Zhang Xiaofang were granted to her pursuant to the Employee Incentive Scheme. For further information of Ms. Zhang Xiaofang, see “Directors, Supervisors and Senior Management.”

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Public Float

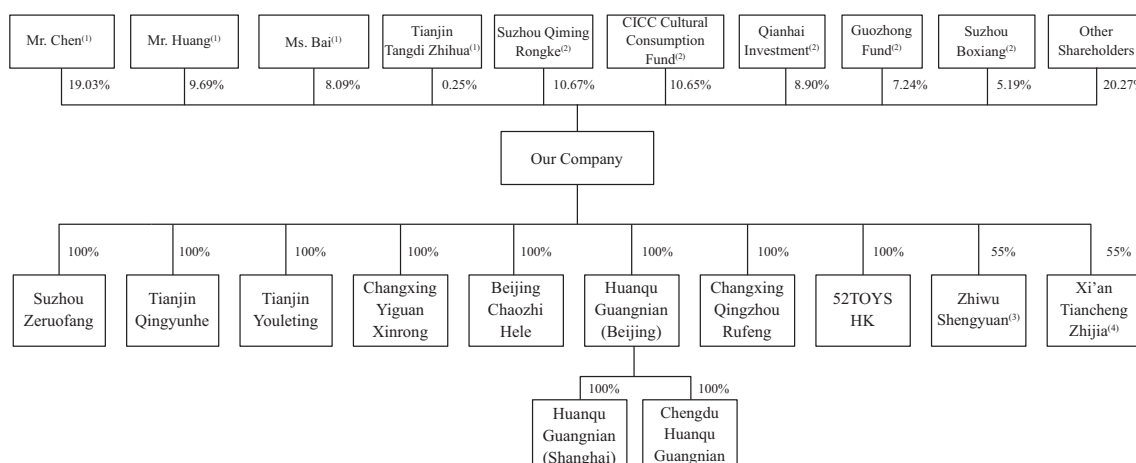
Each of Mr. Chen, Mr. Huang, Ms. Bai and Tianjin Tangdi Zhihua is a core connected person of our Company. An aggregate of 18,532,343 H Shares converted from Unlisted Shares held by Mr. Chen, Mr. Huang, Ms. Bai and Tianjin Tangdi Zhihua, representing approximately 37.06% of our total issued Shares as of the Latest Practicable Date or approximately [REDACTED]% of our total issued Shares upon Listing (assuming the [REDACTED] is not exercised), will not be counted as part of the public float of our Company in accordance with Rule 8.08 of the Listing Rules.

To the best knowledge and information of our Directors, taking into account the conversion of Unlisted Shares into H Shares upon Listing, [REDACTED] H Shares will be counted towards the public float of our Company in accordance with Rule 8.08 of the Listing Rules, representing approximately [REDACTED]% of our total issued Shares upon Listing (assuming the [REDACTED] is not exercised). See “Share Capital” for further details of the Conversion of Unlisted Shares into H Shares.

SHAREHOLDING AND CORPORATE STRUCTURE

Corporate Structure Immediately Before the [REDACTED]

The following chart sets forth our corporate and shareholding structure immediately before the completion of the [REDACTED]:



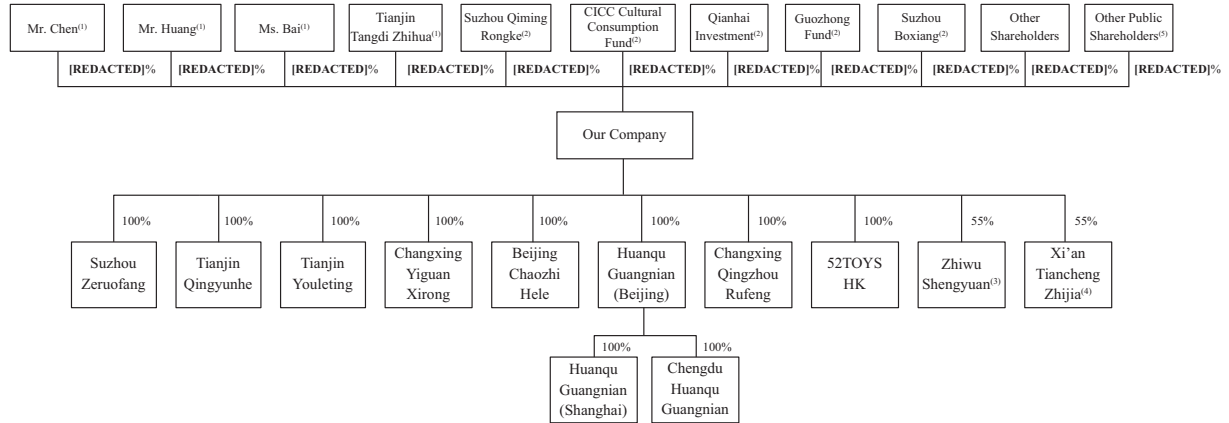
Notes:

- (1) Mr. Chen, Mr. Huang and Ms. Bai are parties acting in concert. Ms. Zeng, the spouse of Mr. Chen, is interested in approximately 0.25% of the Shares by virtue of her role as the general partner of Tianjin Tangdi Zhihua. Accordingly, the Concert Party Group, Ms. Zeng and Tianjin Tangdi Zhihua constitute the Single Largest Group of Shareholders of our Company. See “—Concert Party Arrangement and Our Single Largest Group of Shareholders” and “Relationship with our Single Largest Group of Shareholders” for details.
- (2) For the details of the background information of Suzhou Qiming Rongke, CICC Cultural Consumption Fund, Qianhai Investment, Shenzhen SME Fund, Suzhou Boxiang and other [REDACTED] Investors, see “[REDACTED] Investments” for details.
- (3) The remaining 45% equity interest of Zhiwu Shengyuan is held by ART TOP (HONG KONG) LIMITED, which is in turn controlled by Ms. Chu Hiu Kuk (朱曉菊), an Independent Third Party.
- (4) The remaining 45% equity interest of Xi'an Tiancheng Zhijia is held by Shaanxi Ciyou Culture Development (Group) Co., Ltd. (陝西次優文化發展（集團）有限公司), which is in turn controlled by Huang Lei (黃磊), an Independent Third Party.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Corporate Structure Immediately After Completion of the [REDACTED]

The following chart sets forth our corporate and shareholding structure immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised):



Notes:

- (1)-(4) Please see the notes in “—Shareholding and Corporate Structure—Corporate Structure Immediately Before the [REDACTED]” above.
- (5) The Shares held by these other public Shareholders are H Shares, which will be counted towards the public float together with [REDACTED] H Shares to be converted from Unlisted Shares. See “Share Capital” for further details of the Conversion of Unlisted Shares into H Shares.

BUSINESS

OVERVIEW

Our Story

For millennia, where there are people, there is play.

We play for fun, as even the simplest objects—a rock, a stick, a ball of string—can bring immense joy. But there is more. When we play we enter a land of wonder, where we walk in harmony with our most cherished ideals: beauty, kindness, truth; adventure, companionship, contentment. For a moment we escape the confines of everyday life and reenact it in our pure imagination, and become free.

At 52TOYS, we believe in the power of play, and hold it our mission to share dreams, joy and inspiration with people around the world. “52” is both a soundalike to “I love” in Mandarin and the number of weeks in a year. We are a wild bunch who love to play all year round, and our passion is to get everyone to do the same, so that we are all reunited with our best nature, and the world is a better place.

Let’s play.

Who We Are

We are a leading IP toy company in China, with a portfolio of over 100 proprietary and licensed IPs as of December 31, 2024. Since the launch of our brand in 2015, we have followed an IP-centric strategy, leveraging our acute insights into diverse consumer needs and comprehensive product development capabilities to continually develop engaging IP toys of multiple genres and in turn enhance the commercial value and influence of IPs. According to CIC, we are the second-largest multi-genre Chinese IP toy company in terms of China GMV in 2024, and the third-largest Chinese IP toy company overall by the same measure.

In the IP toy industry, our capability to offer products across multiple genres—different body formats such as figures, action figures, wind-up toys, mecha & model kits, plush toys and accessories—is difficult to achieve but key to success. It not only demonstrates our mastery of diverse creative design and production techniques, but also underpins our ability to tailor product features to evoke the true essence of each IP. In mature toy markets such as Japan and the United States, the IP toy sector is dominated by a handful of multi-genre operators, with the top three players in each of the markets holding 72.2% and 49.3% market shares, respectively. According to CIC, the Chinese market is expected to follow the same trend of consolidation, and we are strategically positioned to remain a leader.

In addition, we are one of a few leading Chinese companies in the industry operating along the entire integrated value chain spanning IP incubation and development, product design, flexible supply chain and omni-channel distribution, according to CIC. With agile supply chain management, we maintain an efficient and scalable operational structure.

Based on our IP-centric strategy, multi-genre operation capabilities and integrated value chain, we continually deliver popular licensed IP products such as Crayon Shin-chan and Tom & Jerry. In 2024, our Crayon Shin-chan and Tom & Jerry product series ranked first in terms of GMV in China among products based on the same IPs, according to CIC. Our products based on proprietary IPs, such as BeastBox, Panda Roll and Sleep, have also garnered strong consumer appeal. For example, we launched over 160 SKUs under our BeastBox IP and achieved a cumulative GMV of over RMB190 million during the Track Record Period.

During the Track Record Period, we achieved significant growth in revenue, from RMB462.9 million in 2022 to RMB630.1 million in 2024, representing a CAGR of 16.7%. In particular, our revenue from overseas markets increased from RMB35.4 million in 2022 to RMB147.4 million in 2024, at a CAGR of over 100%.

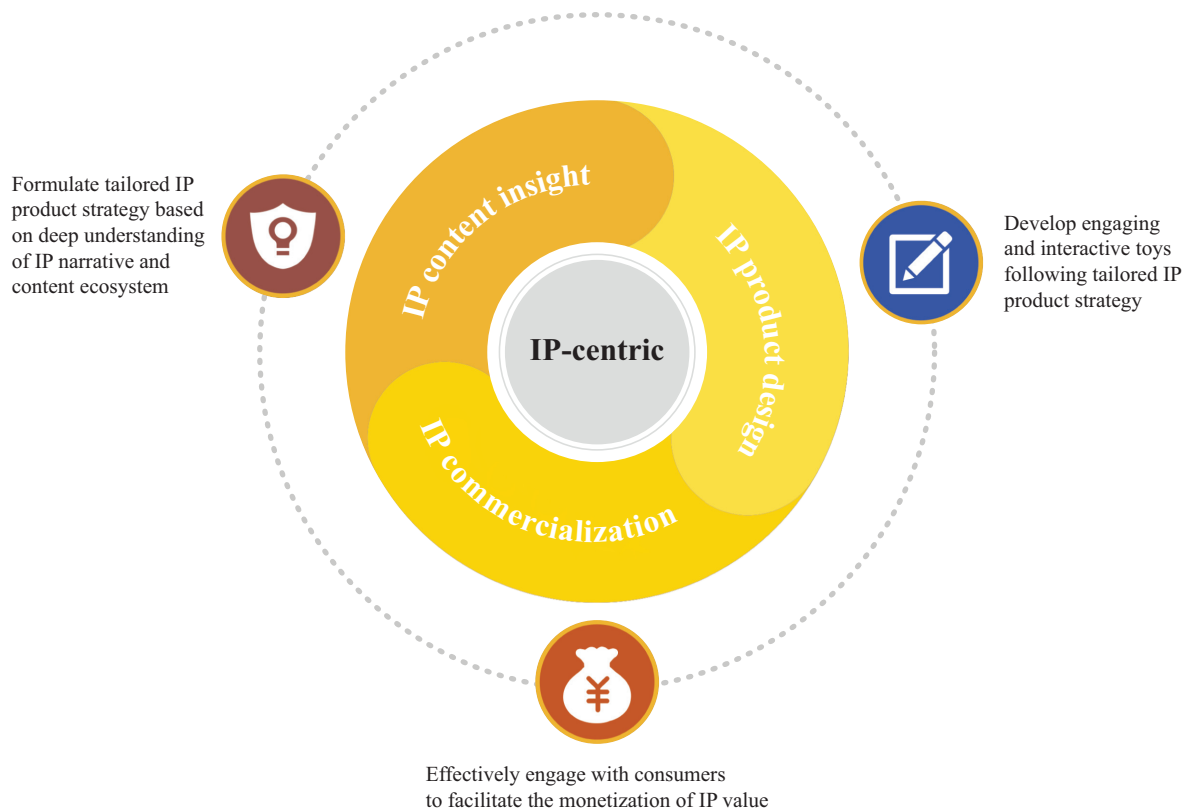
BUSINESS

Our Distinctive Business Model: The IP-Centric Approach

We have spearheaded our distinctive IP-centric strategy, which focuses on IP as the core driver of cross-departmental collaboration, aligning all functional units around IP planning, development and execution and breaking traditionally segmented business structures.

Key features of our IP-centric approach include:

- Content insight: deep understanding of IP narratives and content ecosystem, audience profiles and market trends to formulate tailored product strategies.
- Product design: industry-leading design capabilities paired with agile supply chains to deliver fun and innovative products with breakthroughs in materials, mechanics and player interaction.
- Commercialization: an omni-channel distribution network covering extensive retail outlets and diverse consumer scenarios; and enhanced fan engagement through private domain operations and interactive fan-centered experiences, completing a dynamic feedback loop that enriches both IP management and product development.



Leveraging our IP-centric approach, we are able to create a diverse product matrix based on a tailored IP product strategy, forming a self-reinforcing cycle that broadens IP content ecosystem, enriches IP value and prolongs IP lifecycle.

Dual Growth Engine of Proprietary and Licensed IPs

Our rich IP portfolio spans all age groups and consumption scenarios, powered by two synergetic engines, the creation and curation of our proprietary IPs and the collaboration with top-tier licensed IPs. Our proven expertise in IP incubation, product design and IP operations—honed through the successful

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operation of our proprietary IPs—has enabled us to secure licenses from leading global IPs. Such collaborations have accelerated our growth, further sharpened our product development capabilities and reinforced our competitive advantages. These gains are channeled back into accelerating the growth and development of our proprietary IPs.

- Proprietary IPs.** As of December 31, 2024, we had successfully incubated and managed 35 proprietary IPs, including (i) pop IPs, such as Nook, Sleep, Lilith and CiCiLu, (ii) sci-fi IPs, such as BeastBox, and (iii) cultural IPs, such as Panda Roll and Modern Ancient Series (超活化). Notably, BeastBox adopts a model inspired by the Japanese *Seisaku Iinkai* (production committee) system, fostering strategic internal and external collaborations to diversify its content ecosystem, encompassing comics, novels, animations and more, driving cross-sector growth opportunities. Our continuous development of character-driven narratives has amplified fanbase engagement, expanded IP influence and unlocked sustainable monetization channels.
- Licensed IPs.** As of December 31, 2024, we had 80 licensed IPs, including internationally renowned classics such as Crayon Shin-shan and Tom & Jerry. Our success in licensed IP development stems from a proven hit-making formula, which begins with extracting and reimagining an IP’s core value proposition, followed by segmenting target audiences and aligning product design with the IP’s characteristics and consumer preferences. Anchored in our robust design expertise and multi-genre product portfolio, we build and maintain deep, long-term collaborations with IP proprietors and licensors to achieve mutual growth, as demonstrated by our top selling IPs such as Crayon Shin-chan, which generated over RMB600 million in GMV during the Track Record Period.



OUR MARKET OPPORTUNITY

IP toys represent a segment of a broader IP derivative product market. In China, this market has significant growth potential, driven by rising disposable income, increasing consumer willingness to spend, the proliferation of high-quality entertainment IP, including the newly in-vogue China-chic IPs, and growing demand for pan-entertainment products and services. According to CIC, China’s IP derivative

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product market reached RMB174.2 billion in 2024 and is projected to grow at a CAGR of 14.0% to RMB335.7 billion in 2029. Compared to the others, the IP toy segment is the largest, with a market size of RMB75.6 billion in GMV in 2024 (43.4%), and is expected to be the fastest-growing, to RMB167.5 billion in 2029 at a CAGR of 17.2%.

In 2024, China’s per capita GDP crossed the threshold of US\$10,000. According to CIC, consumers tend to increase their expenditures on cultural and entertainment products and services after a country’s per capita GDP exceeds that milestone. Demographic trends, such as declining birth rates and smaller family units, combined with the pressures of modern lifestyles, further amplify demand for emotionally resonant products. IP toys, with their strong emotional appeal, are well positioned to address these evolving consumption patterns, mirroring development trajectories observed in developed Asian markets such as Japan and South Korea.

As the Chinese IP toy industry transitions from its nascent stage—characterized by limited product genres and inconsistent quality—toward greater diversification and more refined craftsmanship, leading players are setting the pace for innovation, driving both quality improvement and market evolvement. Against this backdrop, high-quality and culturally distinctive Chinese IP toys are increasingly drawing attention on the global stage, unlocking valuable growth opportunities for Chinese IP toy companies.

OUR COMPETITIVE STRENGTHS

Rich IP portfolio of distinctive proprietary IPs and globally recognized licensed IPs

We actively develop and manage a wide range of IPs that address diverse consumer preferences. In selecting and curating our IP portfolio, we establish and fortify our brand identity and showcase a distinct aesthetic in IP content that distinguishes us from other pop toy brands. As of December 31, 2024, our IP portfolio comprised 35 proprietary IPs and 80 licensed IPs.

Our proprietary IPs include distinctively styled pop IPs, sci-fi IPs and cultural IPs.

- *Pop IPs.* Our pop IPs are meticulously crafted, visually distinctive and infused with vivid personalities. For example, Sleep reflects artsy girl esthetics, Nook is a quiet yet imaginative character with extraordinary creativity and CiCiLu, one of our new character IPs, is a courageous messenger living in a post-apocalyptic world submerged by oceans. We continually introduce new product series to enrich these IPs beyond simple visual appeal, transforming them into companions that facilitate emotional resonance and self-expression. Market performance validates the success of our pop IP positioning. For example, Sleep achieved more than RMB200 million in GMV during the Track Record Period.
- *Sci-fi IPs.* Our BeastBox series stands out as China’s first transformable mecha IP series for all age groups. With a grand-scale world setting, it exemplifies our multifaceted capabilities in IP incubation and promotion, including character development and content creation, design and craftsmanship and IP universe expansion through cross-industry collaboration. Additionally, inspired by sci-fi and epic narratives, we have developed a rich content ecosystem surrounding BeastBox toys, including a webcomics series and an upcoming novel in collaboration with a well-known Chinese sci-fi writer. BeastBox’s innovative design and compelling narrative have captivated global audiences. During the Track Record Period, it achieved over RMB190 million in GMV, with overseas markets contributing over RMB50 million, and was especially popular among veteran toy enthusiasts in Japan and the United States.
- *Cultural IPs.* Our cultural IPs primarily include Panda Roll and Modern Ancient Series. Panda Roll features a cute and healing panda character, adored for its charming love for food and playful antics. It achieved over RMB180 million in GMV during the Track Record Period. Modern

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Ancient Series features creative and whimsical modern reinterpretations of historical artifacts and cultural elements. Grounded in the design philosophy of “transcending tradition, reviving history and preserving culture (超越傳統、活化歷史、傳承文化),” the Modern Ancient Series showcases our strength in integrating traditional cultural connotations with creative design, appealing to wide audiences.

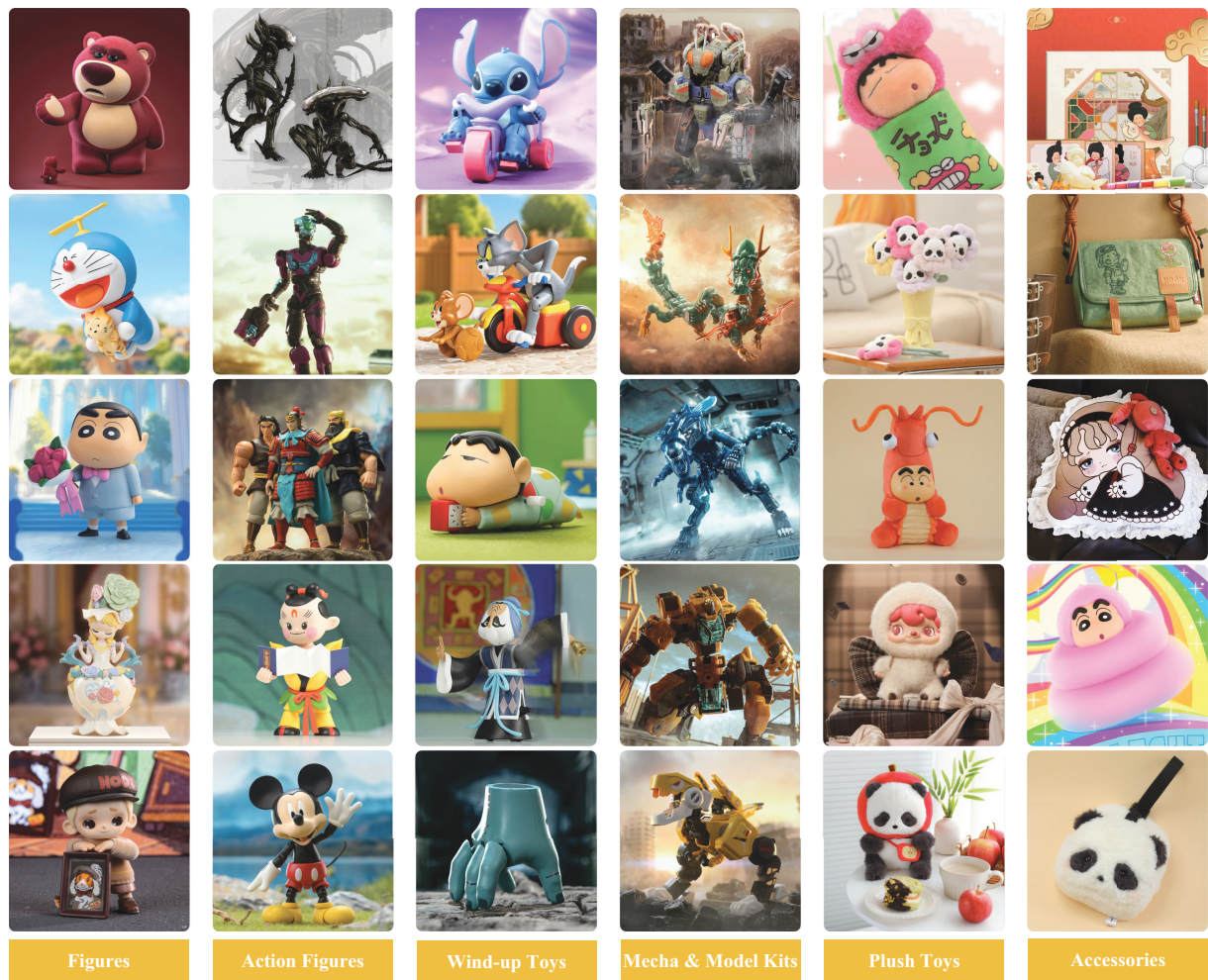
In addition to developing our own IPs, we leverage our innovative product design and successful IP commercialization track record to collaborate with globally renowned IPs, enriching our licensed IP portfolio. Our licensed IP portfolio includes timeless classics like Crayon Shin-chan, Tom & Jerry and Doraemon, along with popular Chinese IPs such as *The Wandering Earth 2* and *Legend of Sealed Book*.

In using the licensed IPs, we excel in crafting authentic adaptations that capture character essence, preserving iconic elements while infusing distinctive creativity in product design. Our products become interactive extensions of the original IP universes, captivating existing enthusiasts and new audiences alike with our innovative interpretations. For instance, our Crayon Shin-chan and Tom & Jerry series were both best-selling products among toys based on the same IPs in China in 2024, according to CIC. We also amplify IP value through collaborative marketing efforts, such as promotional pop-ups for Crayon Shin-chan films, which elevate IP popularity, prolong its lifecycle and unlock commercial potential. Our expertise in IP operations positions us to achieve synergistic growth with licensed IPs and forge enduring partnerships with licensors, thereby attracting more high-quality IP resources and forming a positive cycle of mutual development.

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Creative multi-genre product toolkit in seamless combination with IP portfolio

Based on our industry expertise, we have overcome the constraints of single product categories to establish a multi-genre product portfolio, encompassing figures, action figures, mecha & model kits, wind-up toys, plush toys and accessories. According to CIC, we are one of the few leading Chinese IP toy brands with such diversified product portfolio in China. Our product strategy is tailored to each IP’s unique characteristics, for instance, mecha & model kit for *The Wandering Earth 2* to mirror the film’s sci-fi essence, action figures for *Destiny of An Emperor* to amplify dynamic play, and wind-up toys for Crayon Shin-chan to reenact iconic moves of the character and enhance playability and interactivity. Coupled with a multi-tier pricing structure ranging from mass-market to premium collectibles, our portfolio caters to broad consumer segments, supported by an average annual launch rate of over 500 new SKUs during the Track Record Period.



We place great emphasis on creativity in product design. Our in-house design team, comprising over 80 talented professionals as of December 31, 2024, stands out for its strong character design expertise and exceptional product development capabilities. We actively involve our sales and marketing team in the product planning process, leveraging consumer market research and feedback to establish a strong foundation for successful commercialization. This strategic approach ensures our products remain highly visible in the market, sustain broad appeal and continuously lead industry trends.

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We have also found great success in innovative designs and techniques. For example:

- Our wind-up toys based on Crayon Shin-chan ingeniously recreate the character’s signature moves through mechanical action, encapsulating the essence of the character’s cutely annoying personality while introducing novel interactive value. Since its launch in December 2023, the series has inspired substantial fan recreation on social media, contributing to a remarkable GMV of over RMB380 million for Crayon Shin-chan toys in 2024, ranking first among toys based on the same IP in China in 2024, according to CIC. Since Crayon Shin-chan, the wind-up design has been replicated to various other IPs, such as Tom & Jerry and *Legend of Sealed Book*.
- Our Lotso figure series showcases an innovative combination of flocked texture, chaser eye design and a signature strawberry scent, elevating the product’s sensory experience to a holistic combination of tactile, visual appeal and fragrance. The series generated significant market buzz, leading to a remarkable GMV of more than RMB270 million for Lotso toys during the Track Record Period. The flocking technique has been replicated across other IPs, such as Panda Roll, adding a unique technological cred to the 52TOYS brand.

Omni-channel sales network and multi-dimension marketing initiatives

Our sales network encompasses both direct sales and distributor channels, across offline and online platforms. Our self-operated brand stores, strategically located at vibrant cultural hubs like Taikoo Li Sanlitun and Chaoyang Joy City in Beijing and Kuanzhai Alleys in Chengdu, effectively showcase our brand culture through events such as IP-themed settings and exclusive product launches. In online channels, we cultivate a membership ecosystem via the 52TOYS *WeChat* mini program and our stand-alone mobile app, and maintain a strong presence on leading e-commerce and social media platforms, including *Tmall*, *Douyin*, *JD*, *Pinduoduo* and *Xiaohongshu*. As of the Latest Practicable Date, we had amassed over 4.7 million registered members.

Our extensive distributor network spans diverse retail spaces including specialty stores, toy shops, bookstores, cinemas, convenience stores, amusement parks, museums and airports, complementing our direct sales efforts. We segment, develop and manage distributors according to distinct consumer scenarios, fostering long-term, stable and deeply collaborative partnerships with a broad network of reputable distributors. As of December 31, 2024, we collaborated with over 400 distributors, covering more than 20,000 sales outlets.

To further extend our market reach and enhance conversion rates, we also cultivate targeted sales channels that align with the intrinsic characteristics of specific products. For example:

- For our BeastBox series, as befits its appeal of mecha and animal motifs and engaging transformation play, we collaborate with museums, science centers and amusement parks that encourage exploration and are frequented by family audiences. By the end of 2024, the BeastBox series had successfully entered Chimelong Resort, Haichang Ocean Park and China Science and Technology Museum.
- For our Modern Ancient Series, we collaborate with cultural institutions such as national and local museums and prominent cultural-tourism landmarks such as Xi’an’s Grand Tang Dynasty Everbright City to create dedicated cultural gift sections and organize themed exhibitions and pop-up events, showcasing its unique blend of rich cultural heritage and playful, whimsical design and fostering immersive cultural consumption experiences.

Furthermore, we seamlessly merge our marketing initiatives with our sales network, elevating brand presence and achieving sales conversion through initiatives such as pop-ups, collector toy exhibitions, industry conventions and live streaming sessions. With a focus on IP promotion and new product launches, we had

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organized 35 pop-up events as of the Latest Practicable Date. Our 2023 52TOYS Collector Toy Pavilion at Beijing’s Sanlitun was an 18-day exhibition that attracted over 100,000 visitors, created more than 20,000 pieces of user-generated content, and achieved more than 60 million online exposures. Our online engagement strategies also include live-streaming on platforms like *Douyin* and *Tmall*, featuring interactive activities such as “Meet the Designer” to drive sales and expand brand visibility. By leveraging these marketing activities alongside the expansive reach of social media discussions, we deliver interactive IP and product experiences that forge emotional bonds, resonate with consumer values and transform occasional buyers into dedicated brand enthusiasts.

Proven global expansion capabilities

Since 2017, we have strategically ventured into overseas markets and continuously cultivated our presence. We have successfully expanded into key markets such as Southeast Asia, Japan & South Korea and North America. As of December 31, 2024, we had a network of 16 overseas authorized brand stores, and established presence across leading e-commerce platforms such as *Amazon*, *Shopee* and *TikTok*. Our revenue from overseas markets increased from RMB35.4 million in 2022 to RMB147.4 million in 2024, at a CAGR of over 100%.

Our promising overture overseas is attributable to three key advantages:

- *Rich SKU mix catering to diverse international demand.* Our extensive and varied SKU matrix offers an abundant array of products essential for supporting brand stores and allows the stores to tailor product selections to local consumers’ preferences, effectively bolstering brand recognition.
- *Licensed and proprietary IPs resonating with universal appeal.* By leveraging the fanbase of globally renowned licensed IPs, we quickly enhance our brand visibility in key overseas markets. Moreover, our proprietary pop, sci-fi and cultural IPs allow us to highlight unique cultural narratives and visual styles, maintaining our differentiated advantages in product personality and market positioning.
- *Market-specific operation capabilities.* We have demonstrated strong operation capabilities to formulate and implement localized expansion approaches to enter key overseas markets. For example, we entered Japan, the global mecca of IP toy culture, through deep collaboration with local distributors. Through offering select products tailored to Japanese consumer preferences, such as the BeastBox products, we increased our Japan GMV by three times in 2024 year-on-year. Also, we opened our inaugural authorized brand store in Bangkok, Thailand, the hub of Southeast Asia and a vibrant center of creative cultures, in collaboration with a local distributor. We replicated this model rapidly and opened multiple new stores, and grew our Thai GMV fourfold in 2024 year-on-year.

Industry veteran founders and management team with enduring passion for IP toys

Our founders, Mr. Chen Wei and Mr. Huang Jin, are accomplished entrepreneurs in the toy industry. Mr. Chen, our co-founder, CEO and general manager, has over two decades of relevant experience. Early in his career, he engaged in the long-term distribution of globally recognized toy brands such as Bandai and McFarlane, gaining substantial understanding of market dynamics and consumer needs. This experience equipped him with considerable expertise in creative design, toy sales and brand management. Our other co-founder and president, Mr. Huang, has decades of experience in China’s gaming and toy sectors. He co-developed the immensely successful board game *Legends of the Three Kingdoms* (三國殺), significantly boosting the popularity of games based on the Three Kingdoms culture IP, especially among young people.

Our management team, led by our founders, is dynamic, energetic and equipped with a wealth of industry experience and keen market insights. The core management team possesses extensive experience in

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toy, entertainment and marketing-related fields. Above all, as toy fanatics, they bring passion and commitment to the toy industry that help cultivate our vision, brand image, strengths and strategies. They are dedicated to developing innovative and engaging products that embody the joy of toys. The leadership, comprehensive industry knowledge, innovative approach and dedication to the toy industry demonstrated by our founders and management team are key drivers of our continued growth and sustainability.

OUR STRATEGIES

We are dedicated to becoming a leading IP toy culture company. To accomplish this goal, we intend to implement the following strategies.

Further enhance the IP-centric strategy and boost IP development and operation

Our IP portfolio is the core of our business and the engine of our future growth. We will continue to invest in the growth of our proprietary IPs, actively attracting and nurturing designers with distinctive artistic styles and deep cultural sensibilities, and inspiring IP development through continuous infusion of creativity and vitality. Leveraging the extensive content ecosystem of the BeastBox IP, which established a rich tapestry of characters and content, we are set to further explore its commercial value and seek external licensing and collaboration opportunities.

Our development strategy for licensed IPs focuses on selecting classic IPs that align with consumer preferences, which boast high recognition, substantial fan bases, extended lifecycles and significant potential for product offering expansion. We plan to continue our close collaborations with renowned IP proprietors and licensors, leverage the appeal of IP characters and content to explore innovative, engaging and distinct product design, and continually introduce products that combine the appeal of playability and emotional resonance. For IPs where we have already established competitive advantages through successful product series, we will intensify the creative output, fortifying the connection between our 52TOYS brand and these IPs, promoting mutual growth and development alongside our IP partners.

Additionally, through our collaboration with popular Chinese IPs such as *The Wandering Earth 2* and *Legend of Sealed Book*, we have gained unique experience and advantages in successfully merging culturally resonant narratives and characters with innovative product designs. We plan to continue to deepen our collaboration with renowned Chinese IPs in various sectors including film, animation, gaming and traditional culture, to enhance the impact of such IPs.

Continue to enrich product genres to enhance product excellence

We view toys as cultural artifacts that have evolved alongside human civilization over millennia into an all-encompassing art form, maintaining relevance in both physical and emotional contexts. New genres always emerge, while traditional genres often maintain their vitality. Building on our successes in genres such as mecha & model kits and wind-up toys, supported by our creative team of designers and innovative methodologies, we are committed to product genre reimagination and innovation. By continuing to enrich our portfolio, we aim to deepen the cultural significance of toys and actively contribute to shaping and leading the growing IP toy culture.

We also focus on integrating new materials and production techniques into toy design, harmonizing advanced technologies with classic formats. This allows us to develop products that are diverse in form, highly creative and engaging, meticulously crafted with high quality and competitively priced. We will continue to pursue the optimal fusion between our product types with our IP portfolio, ensuring responsiveness to market trends while meeting the needs of a wide and diverse consumer base.

In addition, we are exploring the incorporation of electronic components into toys, some of which are already featured in our current developments. We plan to adopt emerging technologies such as augmented reality (AR) and

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virtual reality (VR) to enhance playability, interactivity and the technological sophistication of our products. These advancements are designed to meet growing consumer demand for intelligent, interactive companion toys, positioning us at the forefront of innovation in the industry.

Expand direct and targeted sales channels to advance consumer reach

Having developed a robust sales network through years of operation, we are set to accelerate the development of our multi-tier direct sales channels to effectively connect with and serve our customers, thereby boosting brand loyalty and influence. Subject to market conditions, we plan to set up more than 100 self-operated brand stores in select cities in China in the coming years.

We are also growing our sales network across diverse commercial environments. For the BeastBox products, we are actively expanding and upgrading targeted sales at natural history museums, science centers, zoos and theme parks, aiming to craft immersive environments that invite consumers to thoroughly engage with our products. For the Modern Ancient Series, we aim to strengthen partnerships with cultural organizations, extending into tourist attractions and cultural landmarks to set a benchmark for urban cultural souvenirs and unlock further product potential. In addition, we will continue growing our distributor network to supplement our direct sales channels.

Advance global strategies to elevate international brand presence

We believe our proven global strategy will continue to drive growth, and we are committed to further implementing this approach as a powerful engine of our development. Over the years, we have fostered substantial brand recognition and gained valuable insights into key international markets. Going forward, we will concentrate on developing direct overseas operations to amplify our global brand presence and enhance profitability abroad, establishing more than 100 self-operated brand stores in the coming years in key overseas markets with significant growth potential. Drawing from our successful operation of globally recognized licensed IPs in the Chinese market, we plan to expand the license scope of such IPs in international territories. Meanwhile, we plan to utilize our distinctive product offering based on China-chic IPs and cultural IPs to showcase rich storytelling and unique design elements inherent in these IPs, and provide international consumers with a deeper understanding of China’s heritage and contemporary cultural expressions, thereby sparking international interest in Chinese culture. Additionally, we plan to fortify ties with local designers worldwide and investigate building overseas supply chains to strengthen operational capabilities in local markets.

Attract and cultivate a global talent pool to continually enhance our team

Operating in a creative industry, we view creative talent as a central force in our growth journey. We aim to establish a global team rich in artistic capability, creativity and passion for toys. To support sustained progress in key areas such as IP management, product development and market expansion, we will implement a multi-front talent strategy. Firstly, we will prioritize internal talent development and team growth by organizing creative competitions and setting up reward systems that cultivate a constructive competitive environment. Alongside this, we will actively recruit exceptional talent both domestically and internationally to inject fresh energy into our teams. We will partner with professional organizations and abroad, urging employees to pursue worldwide learning experiences to keep the team cutting-edge. We strongly believe in mutual growth of our employees and our Company and will adhere to our various incentive measures to enable employees to achieve personal growth and help propel our Company toward our global strategic objectives.

OUR IP PORTFOLIO

As a leading IP toy company in China, we have followed an IP-centric strategy, leveraging our acute insights into diverse consumer needs and comprehensive product development capabilities to continually develop engaging IP toys of multiple genres and in turn enhance the commercial value and influence of IPs.

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As of December 31, 2024, we had 35 proprietary IPs and 80 licensed IPs. With not only diverse creative design and production techniques across different toy genres, but also the strategic ability to tailor product features to evoke the unique characteristics of each IP to fully express its core value, we have developed a diverse multi-genre product portfolio with different pricing and interactive experiences under each IP that appeal to a wide demographic range of consumers.

To build a rich product portfolio, we are dedicated to IP development, sourcing and management. When developing or selecting the IPs to license, we consider key factors including overall popularity, lifecycle, consumer preferences and potential for product offering expansion. We have a dedicated team to oversee IP operations, focusing on IP portfolio expansion, IP product lifecycle extension and IP value maximization through commercialization.

Our Proprietary IPs

Our proprietary IPs primary include (i) pop IPs, such as Nook, Sleep, Lilith, CiCiLu, NINNIC and Pouka Pouka, (ii) sci-fi IPs, primarily including BeastBox (猛獸匣), and (iii) cultural IPs, primarily including Panda Roll and the Modern Ancient Series (超活化), our IP targeting the cultural tourism market.



NOOK



Sleep



Lilith



CiCiLu



NINNIC



Pouka Pouka



BeastBox



Panda Roll



Modern Ancient Series

Our Pop IPs

Our pop IPs target fans of pop culture from the younger generation. In addition to our self-developed pop IPs, such as Nook, Sleep and Lilith, we have also acquired intellectual property rights in pop IPs developed by external artists, such as CiCilu, NINNIC and Pouka Pouka.

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Nook

We launched Nook in 2022. Nook is a unique character IP that blends themes of healing, creativity, vintage esthetics, social anxiety and environmentalism. Although he prefers to observe the world from quiet corners, his mind is constantly filled with wild, whimsical ideas. Nook’s character resonates with consumers who appreciate a gentle exploration of creativity and environmental consciousness, making it an appealing and distinctive addition to the market. As of the Latest Practicable Date, we had 90 SKUs of Nook products available for sale, including figures and accessories such as eco-friendly paper bags, cushions and earphones case covers.



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Sleep

We launched Sleep in 2021. Sleep is a healing-themed character IP. It introduces a novel and enigmatic elf-like character that connects with all forms of life through dreams. In this deep connection, it transforms into various forms—each one a unique interpretation of the world as imagined through its eyes. Sleep captivates consumers by offering a fresh and imaginative experience that resonates with myriad interpretations, reflecting a unique artistic fusion of dream and reality. As of the Latest Practicable Date, we had 101 SKUs of Sleep products available for sale, including figures and accessories such as night lamps and sleep eye masks.



Lilith

We launched Lilith, a character IP, in 2021. The character draws inspiration from a mysterious owner of an enigmatic and shadowy castle. She is sweet yet rebellious, never seeking the approval or company of others, and finds joy in solitary adventures. As of the Latest Practicable Date, we had 52 SKUs of Lilith products available for sale, including figures and accessories, such as pendants and decorative pins.



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CiCiLu



We entered into an agreement* with the author artists of CiCiLu, a character IP, in 2024. CiCiLu is a girl living in a post-apocalyptic world submerged by oceans, where communication has become impossible. Acting as a courageous ocean messenger, CiCiLu collects letters and parcels brought by the waves every day, navigating the vast sea on a raft propelled by colorful sea urchins. She bravely traverses the waters, delivering wishes, secrets and sentiments to distant islands. Her journey is full of challenges and adventures, but also filled with hope and warmth. As of the Latest Practicable Date, we had four SKUs of CiCiLu products available for sale, including figures and accessories.

NINNIC

We entered into an agreement* with the author artists of NINNIC, a character IP, in 2025. A character with a notable sense of curiosity, NINNIC has a springy pair of alert ears, always tuned to signals that only they can hear. Their face is forever lit by a playful grin, hinting at whimsical schemes known only to them. In their own secret world, NINNIC weaves optimism and joy into a shield against solitude, transforming the ordinary into bursts of imaginative wonder.



* Through this agreement, we acquired the global rights to develop and sell products based on NINNIC and license out such IP.

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Pouka Pouka

We entered into an agreement** with the author artists of Pouka Pouka, a character IP, in 2025. Pouka is that faint, indescribable feeling lingering in our hearts—perhaps a hint of regret, perhaps a spark of surprise. It flickers like a timid flame, sometimes soft and tender, other times bold and daring. Pouka is like the wind—slipping away quietly one moment, stubbornly refusing to leave the next.



Our Sci-Fi IPs

Our sci-fi IPs cater to science fiction fans, especially those interested in mechas, which are giant robots or machines, and transformable toys. Our sci-fi IPs primarily refer to our BeastBox series.

** Through this agreement, we acquired the exclusive global rights to develop and sell products based on Pouka Pouka.

* Through this agreement, we acquired the global rights to develop and sell products based on CiCiLu and license out such IP.

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BeastBox (猛兽匣)

BeastBox is an original mecha IP series launched by our in-house design team in 2016. Our classic BeastBox series features mecha toys, which are transformable toys of mechanical innovations, that can transform between “beasts” and boxes. These transformable toys are filled with limitless imagination. Since our first product of the BeastBox series “Dio,” BeastBox has grown to feature over 300 transformable toys and become our signature IP series. Targeting the broad mecha fanbase, our BeastBox has attracted fans around the world, ranging from children to adults. Through the years, we have also developed BeastBox into a rich content IP series featuring an adventurous story of human beings defending against AI and monsters utilizing “Box” technology across various media format. As of the Latest Practicable Date, we had 288 SKUs of BeastBox products available for sale, including mecha & model kits, figures, action figures and accessories such as collectible cards, badges and keychains. See “—Our Product Offerings—Mecha & Model Kits” for details of our BeastBox products.



Through innovative design, captivating storytelling, multi-media content development, high-quality products and consumer engagement, BeastBox has captivated a global audience. By continuously enriching the content of our BeastBox IP, we aim to expand the BeastBox IP ecosystem with additional characters and derivatives, extending the lifecycle of our BeastBox products.

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IP and Character Design

Inspired by animals, characters of our classic BeastBox series are grouped into five species: Dragonox (古龍族), Crawlox (巨爪族), Buzzox (嗡鳴族), Aerialox (亮翅族) and Waverox (破浪族), representing dinosaurs, contemporary beasts, insects, birds and aquatic animals, respectively. Each of the five species possesses unique personalities and capabilities in assisting human beings to defend against AI and monsters in the “BeastBox” story. We incorporate our creative designs into the imagery of creatures, creating characters with distinct personalities and a mecha aesthetic.



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For our Infinity BeastBox series, we collaborated with Tsuboshima Yuki (坪島悠貴), a distinguished Japanese artist, and crossed over with our Modern Ancient series to launch our Rui Shou (瑞獸) series mecha products in 2020, which featured mythological creatures such as Azure Dragon (青龍), White Tiger (白虎), Kylin (麒麟) and Black Tortoise (玄武). With delicate and creative design by our partner artist and the embodied unique oriental culture element, our Rui Shou series quickly captivated both domestic and overseas consumers, promoting mecha toy and oriental culture at the same time.



BeastBox Ecosystem

We have cultivated a rich content ecosystem through multiple media formats to bring the BeastBox to life. We launched a weekly webcomics series, our first BeastBox comics, in the first quarter of 2025, which visualized our BeastBox worldview for our fans and introduced our BeastBox IP to other comics readers. The webcomics also served as a prequel of our planned BeastBox novel. In the fourth quarter of 2023, we began a collaboration with Wang Nuonuo (王諾諾), an award-winning Chinese sci-fi author, for our first BeastBox novel. With a planned release by the end of 2025, we aim to indulge our fans as well as readers in a phantasmagoric universe of the BeastBox through the rich content of the literature. We are also working on our first BeastBox promotional video, which is an exciting preview of our BeastBox worldview and our BeastBox novel, to release together with the novel. We are also communicating with artists and producers and plan to release BeastBox-themed animations and movies in the near future.

Collaboration with Zoos, Museums and Amusement Parks

Based on the popularity of our BeastBox among the youths and animal lovers, we collaborate with zoos, museums and amusement parks to display and sell our BeastBox products in their gift shops and to effectively reach the target consumers of our BeastBox products. See “—Sales Network.” As of the Latest Practicable Date, our BeastBox products had entered Chimelong Resort, Haichang Ocean Park and China Science and Technology Museum, among others.

Consumer Engagement

Our BeastBox mecha & model kits have been highly popular among consumers. Enthusiasts of our BeastBox products have created and published videos and posts sharing their experience and passion for our products and received millions of views on social media platforms. In addition to our mechas and model kit products, we also collaborated with artists and crossed over with other IPs under our Infinity BeastBox

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and launched co-branded products, such as apparel and skateboards. During the Track Record Period, we also organized special BeastBox pop-up events, such as BeastBox-themed off-road vehicles painting, and participated in conventions to engage with our BeastBox fans and promote our brand image. See “—Marketing and Consumer Engagement—Conventions.”

Our Cultural IPs

In addition to our IPs based on pop culture and science fiction, we have developed IPs, including our Panda Roll and Modern Ancient Series, based on historic figures and local cultures.

Panda Roll

We launched Panda Roll in 2021. Panda Roll is a character IP that captures the essence of cuteness, healing, relaxation and stress relief. Panda Roll’s appeal lies in its ability to deliver both fun and comfort. As a panda, Panda Roll is usually developed with flocked, soft texture that invites petting. It showcases the charm of panda, through vivid and endearing designs, winning widespread affection from consumers. As of the Latest Practicable Date, we had 195 SKUs of Panda Roll products available for sale, including figures, plush toys and accessories such as carpets, water bottles and earphones case covers. During the Track Record Period, we also engaged in cross-over collaboration and licensed our Panda Roll IP to fast-moving consumer goods brands for additional monetization opportunities and to further promote the IP.



The Modern Ancient Series (超活化)

The Modern Ancient Series, primarily created by our in-house design team in 2017, is an original cultural IP series grounded in the design philosophy of “transcending tradition, reviving history and preserving culture (超越傳統、活化歷史、傳承文化).” Through modern creative reinterpretations, we breathe new life into elements of traditional culture of different regions and invigorate historical symbols. Our Modern Ancient Series blends historical artifacts and rich culture. For example, our Palace Ladies series place Tang Dynasty palace ladies within contemporary settings, offering a novel combination where the grace and artistry of ancient figures merge with trendy symbols of modern life, such as selfie, bubble tea and workplace emotions. In addition, our whimsical recreations, such as “Fighting Terracotta Warriors (戰鬥的兵俑),” depicting warriors in the Qin Dynasty holding modern firearms, bring traditional culture to life with renewed charm. We

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partner with numerous regional museums and tourist attractions to develop products with elements of local culture and history. Our cross-industry collaborations such as ones with a photography studio chain and the retail chain of a multinational technology company created unique synergies with different brands and extended the scope of cultural dissemination. As of the Latest Practicable Date, we had 147 SKUs of the Modern Ancient Series products available for sale, including mecha & model kits, figures, plush toys and accessories.

Product Showcase — The Modern Ancient Series: Bronze Squad

Bronze Squad traces its origins to our third 52TOYS original design competition held in 2018, Centered around the theme of cultural revitalization of artifacts, the competition was designed to integrate historical artifacts with modern design elements. The competition attracted talent from across China, generating diverse and creative reinterpretations of traditional culture. Bronze Squad stood out among hundreds of submissions with its cute transformation of ancient bronze artifacts. The design captured the iconic features of the original artifacts with a playful charm for contemporary audiences. Following the competition, we launched Bronze Squad as a crowdfunding project, which surpassed its funding goal by over four times within 48 hours, demonstrating wide market enthusiasm. We also collaborated with Shaanxi History Museum, Shanxi Museum and Qin Shihuang Mausoleum Museum and offered our Bronze Squad in their gift shop. The unique cute design and cultural context make Bronze Squad a standout choice for discerning tourists seeking engaging and premium mementos.



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Product Showcase — The Modern Ancient Series: Palace Ladies

Our Modern Ancient Series: Palace Ladies products embody imaginative design, appealing to consumers across cultural and generational divides. Inspired by Tang Dynasty palace ladies, this series uniquely intertwines historical authenticity with modern-day relevance. Our “Palace Ladies Yoga” reimagines palace ladies in elegant yoga poses, blending classical beauty with modern wellness culture. Such contrasting design esthetics also blend a sense of humor with history, resonating emotionally with younger users who cherish the fusion of historical charm with modern appeal.



Through collaboration with cultural establishments, such as Shaanxi History Museum and tourist landmarks like the Grand Tang Dynasty Everbright City (大唐不夜城) in Xi'an, our Palace Ladies collections were offered in gift shops at such tourist attractions, effectively reaching our target consumers where it is the most effective. Different from traditional souvenirs, our palace lady figures with humorous modern touch provide a new and refreshing souvenir option, distinguishing themselves from competing products. See “—Sales Network.” Our distribution channels cover gift shops, bookstore chains, trendy boutiques and online e-commerce platforms. Our Palace Ladies collections have fostered extensive consumer interaction and enthusiasm. Fans frequently craft and share content, celebrating their appreciation of these products. We have also launched a DIY painting gift box under our Palace Ladies collections, providing interactive experience to consumers where they can customize their own palace ladies toys.

Licensed IPs

Our successful track record in commercializing proprietary and licensed IPs has positioned us as a favored partner for IP proprietors and licensors. We enter into license agreements to secure the rights to develop and sell toys and accessories in China and overseas. As of December 31, 2022, 2023 and 2024, we had 44, 55 and 80 licensed IPs, respectively. Our licensed IP portfolio includes a wide range of IPs, ranging

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from animations, movies, comics and games, that are popular across wide demographics including age groups and genders. As of the Latest Practicable Date, we had over 1,400 SKUs available for sale based on our licensed IPs.



Lotso



Disney Classics



Disney Princess



Stitch



Winnie the Pooh



Chip 'n' Dale



Alien



The Nun



*How to Train
Your Dragon*



Tom & Jerry



Crayon Shin-Chan



Doraemon



Sanrio



*Destiny of
An Emperor*



*The Wandering
Earth 2*



Superman



Minions



The Powerpuff Girls



Chiikawa



*BLADES OF THE
GUARDIANS (镖人)*

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The table below sets forth certain information on our selected licensed IPs under our IP licensing agreements in effect as of the Latest Practicable Date.

IP	Type of counterparty	Licensed territory	Year(s) of relationship	License expiration year ⁽¹⁾
Crayon Shin-chan	IP licensor	Mainland China	7	2027
	IP licensor	10 regions and countries overseas	2	2025-2027 ⁽²⁾
Disney: Disney Classics, Disney Princess, Lotso, IP proprietor Stitch, Frozen, <i>Toy Story</i> , Dumbo, Chip ‘n’ Dale, Winnie the Pooh, etc.		Mainland China and 10 regions and countries overseas	6	2025
Disney (20th Century Studios): Alien, Predator, IP proprietor etc.		Mainland China	6	2025
Warner Bros.: Tom & Jerry, The Nun, Superman, IP proprietor Rick and Morty, The Powerpuff Girls, etc.		PRC ⁽³⁾ and 38 countries overseas	5	2026
Doraemon	IP licensor	Mainland China	4	2026
	IP licensor	5 countries overseas	1	2025-2026 ⁽²⁾
<i>Destiny of An Emperor</i>	IP proprietor	Global	4	2028
<i>The Wandering Earth 2</i>	IP proprietor	Mainland China and Japan	3	2025
Sanrio: Cinnamoroll, Pompompurin, Pochacco, IP licensor Kuromi, My Melody, Hello Kitty, etc.		Mainland China	2	2026
Chiikawa	IP licensor	Mainland China	2	2026
<i>BLADES OF THE GUARDIANS</i> (镖人)	IP proprietor	Global	1	2027
Universal: Minions, <i>How to Train Your Dragon</i> , IP proprietor Frankenstein, Dracula, The Mummy, Werewolf, <i>Creature from the Black Lagoon</i> , etc		PRC ⁽³⁾	1	2027

Notes:

- (1) The term of our licensing agreements is generally from one to three years, and can be renewed upon mutual agreement. Such arrangements are in line with industry practice, according to CIC. We do not expect there to be any material difficulties in renewing our major licensing agreements upon their expiry.
- (2) The expiration dates of our licensing agreements for such IPs differ depending on the licensed territory.
- (3) Includes mainland China, Hong Kong, the Macau Special Administrative Region and Taiwan.

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OUR PRODUCT OFFERINGS

We have developed a multi-genre IP toy portfolio based on our proprietary and licensed IPs. We believe our IP toys have wide appeal to different age groups and genders. Our “52TOYS” branded products are primarily categorized into the following genres.*



Figures

We develop figure toys based on our proprietary IPs and licensed IPs to capture and showcase the characters’ iconic poses, appearances and scene details. Our figure toys cater to a wide demographic range of consumers and are welcomed by fans for their creativity, innovative sensory engagement and organic innovation of the original IP. In addition to traditional PVC and ABS toys, we have developed products with innovative textures, using materials such as flock and soft vinyl.



* In addition to “52TOYS” branded products, we also enter into exclusive collaboration agreements with third parties to promote and/or distribute their products in our sales channels. See “Financial Information—Description of Certain Key Items of the Consolidated Statements of Profit or Loss and Other Comprehensive Income—Revenue.”

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Lotso “It’s Me”

Our Lotso “It’s Me” series combines tactile, visual and olfactory elements to elevate user interaction. We have employed flocked fabric to recreate the plush texture of Lotso, introduced “chaser eye” design for a dynamic gaze effect and incorporated a strawberry fragrance for a full sensory experience. Our Lotso models also featured distinctive color choice that was different from the default color in the official gallery provided by the IP proprietor. Our Lotso “It’s Me 1” multi-sensory design differentiated us with other competing Lotso figure products and attracted consumers uploading UGC sharing their experience soon after launching.



In addition to Lotso, we have also applied the flocked materials to figure toys of a number of IPs, especially for fuzzy characters, such as Stitch, Winnie the Pooh and Lucifer. For our Mischievous Cat Lucifer series, we also used glow-in-the-dark paint for the eyes of Lucifer to mimic the natural reflective properties of cat eyes and the character’s mischievous nature.

We typically introduce 60 to 90 series of figure toys each year. Each series typically centers around a specific theme and features four to ten models. We determine the price of our figure toys based on various factors, primarily including sizes, costs and prevailing market prices. The price of our figure toys primarily ranges from RMB39 to RMB499 per unit.

Action Figures

We have developed an extensive range of action figures under our “FigLite” product series. Our action figures are poseable character figures that provide consumers with interactive experience with popular characters of our licensed IPs, such as *Destiny of An Emperor*, as well as characters developed in our Modern Ancient Series. Our action figures feature intricate details and advanced articulation, allowing collectors to recreate expressive poses and iconic scenes with precision. Each of our action figures features at least five articulated joints and various hand position components. We also offer exclusive accessories for some action figures. Our action figures resonate with fans worldwide by enabling enthusiasts to recreate expressive poses and iconic scenes meticulously, encouraging UGC generation and posting and solidifying our robust presence in the dynamic global collectible action figures market.

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The Destiny of An Emperor

Our *Destiny of An Emperor* action figures bring the legendary characters of the arcade game vividly into the tangible world. Designed to 1/18 portable scale and standing at just 3.75 inches (approximately 10 cm), these figures include iconic heroes Liu Bei, Guan Yu and Zhang Fei. Detailed sculpts capture each character’s essence, with intricate muscle lines, armor textures, and signature expressions that echo the original designs. With around 20 articulated joints per figure and swappable signature weapons, our *Destiny of An Emperor* action figures provide exceptional poseability. Fans can pose the warriors in dynamic battle stances, iconic gestures or action scenes, to recreate legendary moments from the game or invent entirely new ones. Our meticulous paintwork also highlights detailed features, from fabric folds to weaponry. More than collectibles, these action figures are a tribute to interactive storytelling. These action figures continue to charm retro gamers and collectors alike while providing a fresh way to relive the joy of *Destiny of An Emperor*’s legendary battles.



We offer our action figures in various sizes, including the classic 3.75-inch figures, 6-inch figures and 10-inch or larger figures. We typically introduce 10 to 15 models of figure toys each year. We determine the price of our action figure toys based on various factors, primarily including sizes, number of joints, costs and prevailing market prices. The price of our action figure toys primarily ranges from RMB88 to RMB259 per unit.

Wind-up Toys

Our wind-up toys embrace vintage mechanical techniques, diligently replicated for contemporary collectors, bringing characters of our licensed IPs alive. Each of our wind-up toys is equipped with a precision wind-up system that, once activated, recreates iconic movements of popular IP characters. We offer our wind-up toys with different degrees of movements complexity and different combinations of various movements, such as walking, waving hands and mouth movements. By seamlessly blending nostalgic play with modern collecting interests, we redefine mechanical allure, appealing to both wind-up toy collectors and fans of popular IPs. Our wind-up toys exemplify our commitment to inventive and artistic IP toys in the dynamic global market.

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Crayon Shin-chan “Dynamic Shin-Life”

Inspired by Crayon Shin-chan’s funny personality and dynamic scenes in the original animations, we launched our first wind-up toy series, Crayon Shin-chan’s Dynamic Shin-Life, in 2023, to enhance the mobility of and interactivity with Crayon Shin-chan figures and to bring the character to life. We selected four of the most iconic moves of Crayon Shin-chan in the original animations and recreated such moves utilizing wind-up mechanism. The toys are packaged in boxes which can be unfolded into an iconic scene in the animation. Each model of the series also comes with a lenticular card which illustrates the movement of the specific model. Since its launch, our Dynamic Shin-Life series has been one of our best-selling products, accumulating a GMV of over RMB120 million during the Track Record Period.



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In addition to our first wind-up toy series, Dynamic Shin-Life, in 2023, we also introduced five series of wind-up toys in 2024, including Tom & Jerry and *Legend of Sealed Book* series, with each series featuring four to nine models. We determine the price of our wind-up toys based on various factors, primarily including number of wind-up components, costs and prevailing market prices. The price of our wind-up toys primarily ranges from RMB39 to RMB89 per unit.

Mecha & Model Kits

Our mecha & model kits are centered around our proprietary IP, BeastBox. Our classic BeastBox mechas reimagine prehistoric and existing creatures into intricate mecha forms that can transform into cubes of different sizes, including entry-level 3cm boxes, intermediate-level 4cm boxes, classic-level 5cm boxes and master-level 7cm boxes. Our BeastBox mecha series is founded on the core concept of transformation of beasts into boxes, featuring transformation of multiple forms, including animal-form, vehicle-form and humanoid-form, into standard-sized cubes. Certain models can also be reassembled into new characters after unfolding the boxes. The play and interactive experience of transformation and assembly of our BeastBox series attracted mecha enthusiasts around the world. We have also launched our Infinity BeastBox series, our collaborative line of BeastBox partnering with artists and licensed IPs, such as *The Wandering Earth 2*, to achieve innovative breakthroughs.



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Infinity BeastBox x The Wandering Earth 2

In 2023, we launched a cross-over Infinity BeastBox series with *The Wandering Earth 2*, integrating the technological sophistication of our signature BeastBox modular mechanics with the powerful sci-fi narrative of the blockbuster *The Wandering Earth 2*. We introduced three models inspired by iconic elements from the film—Ben Ben, 550W & 550C and Framer. Each model adopted the classic box design of our BeastBox series and can be transformed between the character and a 5cm cube. Our innovative design resonated with both fans of our BeastBox series and fans of *The Wandering Earth 2*, and this series became one of our best-selling BeastBox series.

- *Ben Ben*. Recreating the lovable robotic dog in *The Wandering Earth 2* while incorporating BeastBox’s intricate transformation mechanics, Ben Ben became the centerpiece of this collaboration series. Its design allows users to appreciate mechanical esthetics while enjoying hands-on transformation.
- *550W & 550C*. Drawing from the quantum computing lab scenes, this model combines 550W and 550C, two quantum computers in the movie, in one box, each of 550W and 550C can be separately transformed into their original shape. Featuring complex structural designs and detailed visual design, this model provides an accurate representation of 550W and 550C for movie enthusiasts. Our 550W model also features a mini light module, providing an engaging play experience.
- *Framer*. This model recreates the doorframe robot from the film with a customizable assembly structure that highlights its mechanical complexity and futuristic design.



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Our model kits are kits of plastic components that allow consumers to assemble BeastBox characters, and then transform the character between its animal-form and vehicle-form. Our model kits are developed for hobbyists who enjoy crafting and customizing models. They range in complexity, from simple models suitable for beginners to intricate designs requiring advanced skills.



Our mecha & model kits are continuously welcomed by fans for their playability, mental challenge and esthetics. We offer a vast number of mecha & model kit products catering to wide age groups, price segments and global consumers. We typically unveil around 50 models of series mecha and model kits each year and dynamically adjust the quantity based on consumer preferences & market trends. For each BeastBox character, we may develop different versions of products with various designs, colors, sizes, complexity and interactive experiences. We determine the price of our mecha & model kits based on various factors, primarily including sizes, costs and prevailing market prices. The price of a single model of our mecha & model kits primarily ranges from RMB68 to RMB328 per unit.

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Plush Toys

We offer plush toys around soothing and heartwarming characters of proprietary and licensed IPs. Our plush toy features various fabric craftsmanship, ranging from standard short plush, long plush, slow-rebound materials to vinyl, enhancing tactile experiences. For example, to provide stress relieving and fun interactive experience to consumers, our Crayon Shin-chan “Up Up” series adopted slow-rebound material for Crayon Shin-chan’s body to aid stress relief and adopted soft vinyl, which is a softer material than traditional PVC or ABS, for the face of Crayon Shin-chan to match the toy’s soft and soothing body. We determine the price of our plush toys for sale based on various factors, primarily including sizes, costs and prevailing market prices. The price of our plush toys primarily ranges from RMB49 to RMB99 per unit.



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Accessories

We also develop various accessories featuring our proprietary and licensed IPs, such as earphones case covers, badges, magnets, bags, home decors and decorative pins. Such accessories are made by different kinds of materials and can be commonly used in everyday life. By combining IP toy culture and functionality, accessories extend the fun from IP toys to the daily lives of our fans, offering practical benefits.



OUR DESIGNERS AND CREATIVE PROCESS

Our creative process focuses on the creation and curation of proprietary IPs and product development in collaboration with licensed IPs. By partnering with leading global IPs, we have achieved rapid scalability, refined our product development capabilities and established significant competitive advantages. These gains are channeled back into accelerating the growth and development of our proprietary IPs.

At the core, we are a creative business operating in the creative industry. We consider our toys vessels of delivering emotional value. During the creative process, our designers and partner artists imbue our toys with a sense of spiritual value that transcends the physical form. Our proprietary IPs and products are created by our in-house design team and partner artists. We follow a consumer-oriented design and development approach. Throughout the product design and development process, we leverage our consumer insights from the collection of feedback and consumer participation.

In-House Design Team

The creative process is crucial to our success, and we have established a dedicated in-house design team consisting of 85 designers as of December 31, 2024 with extensive industry experience and deep understanding of toys, consumer goods and IP culture. Our in-house designers are deeply involved in the IP development and product development process. We have a designated team of designers to work on each of our proprietary and licensed IP. As of December 31, 2024, our in-house design team had developed over 30 proprietary IPs. We actively seek IP protection for our IP development efforts. See “—Intellectual Property—IP Protection.”

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Our Creative Process

Proprietary IPs

Our creative process for our proprietary IPs includes story creation and character design. We focus on matching the storylines and IP characters to create storytelling that resonate emotionally with our target consumers. For our character IPs, the creation of a character IP begins with designing a rich narrative that includes the character’s background, personality traits and storyline to establish a compelling identity. We then develop concept sketches to visualize the character’s appearance, style and unique attributes. The process concludes with an internal assessment, where we evaluate the character IP’s potential before we proceed with product development and commercialization. For our content IP, specifically BeastBox, the creative process also involves more intricate worldview construction. Using our BeastBox toys as a starting point, we meticulously constructed the BeastBox worldview and various conceptual settings and formulated a BeastBox white paper, which our in-house design team strictly follow in product development and in our collaborations with partners. We work with renowned authors and artists to create various media content for wide dissemination, including literature, comics and animation. See “—Our IP Portfolio—Our Proprietary IPs—Our Sci-Fi IPs—BeastBox.”

Licensed IPs

We actively look for IPs that are widely popular and can potentially complement our current product portfolio and further expand our target consumer groups. In the licensed IP selection process, we conduct extensive market research, supplemented by our deep insights on market trends. Our team responsible for licensed IP selection have extensive experience with a deep understanding in the pop culture.

Generally, we will take into account of below factors when selecting IPs.

- *Popularity.* Popularity of a candidate IP can determine its potential for sales and product feasibility to gain access to the market. Reputation of a candidate IP is also important as our brand image will be closely associated with the selected IP after we launch new products with such IP.
- *Lifecycle.* We examine the lifecycle of candidate IPs, recognizing that established IPs with enduring appeal can sustain interest and drive long-term engagement. Meanwhile, emerging IPs with growing popularity may offer novelty and new opportunities, ensuring a dynamic balance in our product development strategy.
- *Consumer preference.* We assess whether the fans of a candidate IP align with the target consumer groups of our potential product offering. Fans demographics, location and willingness to purchase IP merchandises are important factors to be taken into account during such assessment.
- *Product offering expansion potential.* We consider the worldview and storylines associated with the IPs and the variety of characters within the IP franchise to make sure we are able to expand our product offering under each individual IP.

Product Design and Development

Generally, we design and develop our products through the following process:

- *Concept phase.* At the concept phase, we brainstorm product ideas and concepts based on the IP. For our licensed IP products, we first delve into the original work of the selected IP to gain a thorough understanding of the characters, worldview and stories behind it. Then we conduct analysis on the market of the selected IP to learn about its fans, including their gender, age,

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locations and preference. After that, we leverage our deep understanding of the IP and the competitive landscape to focus on designing our products. For our proprietary IPs, we typically spend less time at the concept phase while being able to develop more product series and themes as our proprietary IPs are designed with our products in mind at the outset.

At this stage, we first design two-dimensional sketches and gradually determine, among others, the forms, costs, pricing and serial planning of the products. For our licensed IPs, we send our product proposals formed at the concept phase to the IP proprietors or licensors for review as required under the terms of our license. The IP proprietors and licensors may provide feedback and suggestions, based on which we may update our proposals. Where permitted by the IP proprietors, we always try to innovate beyond the official gallery provided by the IP proprietors to differentiate with peer products and showcase our creativity.

- *Industrial design and design for manufacturing (DFM).* At the industrial design stage, we create detailed three-dimensional models based on the preliminary sketches developed at the concept phase. We also involve our engineering department to optimize the model design to ensure its production feasibility. This stage is particularly crucial for our mecha & model kits, action figures and wind-up toys. For mecha & model kits, we design the number and shapes of components, the connection mechanisms and transformation logics, aiming to find a feasible way to realize our conceptual design. For our action figures, we design and determine the joints and the connection mechanisms to balance playability and cost-effectiveness. For wind-up toys, we design the wind-up mechanism within the toy to realize the vivid designed movements, while achieving satisfactory esthetic.
- *Visual design.* We work on the three-dimensional models and design and determine the colors, materials and finishes of the products, aiming to convey our designed theme, ensure the quality of our products and add unique visual appeal to our products. Meanwhile, we work with the IP proprietors or licensors to design and finalize the packaging of the final product.
- *Prototype.* We design the prototypes based on the detailed three-dimensional model to verify the results. Meanwhile, we initiate discussion with our partner factories for DFM in details, which is followed by molding. After molding and test shots, we initiate mass production with our partner factories.

Collaboration with Artists

In addition to our in-house design team, we actively partner with artists globally. As of the Latest Practicable Date, we had collaborated with over 40 partner artists in mainland China, Hong Kong, Japan, Malaysia, United States and United Kingdom. Our partner artists specialize in visual arts such as visual design, painting and sculpture work. Leveraging our leading market position, established operation capability, extensive sales network and large fan base, we help bring their works to fans around the world. We partner with master artists to offer products under our MasterArt series. For example, we collaborated with (i) Mr. Udagawa Yasuhito (宇田川譽仁) for the special edition Dio of BeastBox series in 2020; (ii) Mr. James Groman to develop products under licensed IP Alien in 2022; and (iii) Mr. Han Meilin (韓美林) for Peaceful Jade Rabbit (平安玉兔) in 2023.

Each of our partner artists is supported by our designated artist management personnel to enhance the quality and commercial value of their artworks. Based on our experience and insights and collected target audience’s feedback, we provide suggestions as well as collect fans’ feedback over time to inspire creative designs and help them refine their designs. Leveraging our integrated IP toy marketing platform, we are able to sell the products developed based on their IPs to consumers through our omni-channel network, promote their creative designs among our fans and explore additional monetization opportunities.

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MARKETING AND CONSUMER ENGAGEMENT

To better market our products and brand, we have established a dedicated marketing team with extensive industry experience and deep consumer insight that is responsible for formulating and conducting marketing activities and promotion campaigns. We primarily engage with fans and consumers through our membership programs, conventions and social media platforms to expand our brand presence.

Our Fans and Community

As a leading IP toy company in China, we have attracted a diverse and passionate fan base that keeps growing. Our fan base includes individuals from children and adolescents to adults. They are attracted by our products for their innovative features, playability, functionality and quality, as well as the sense of humor or intellectual challenge in some cases, which result in high customer loyalty and repeat purchases. They also share the fun and intellectual challenge they experience with our products with their friends and families or online communities, which further expands our fan base.

We have a multi-channel membership program to build our fan community, enhance their stickiness, and incentivize repeat purchases. Our fans can register as “Collectors” for free through online channels, including our flagship stores on e-commerce platforms, our “52TOYS” *WeChat* mini program and mobile app, and offline channels, such as our brand stores. We have five tiers of membership and offer different tiers of membership benefits. The tier of membership is determined by “Growth Points,” which are calculated based on a member’s purchase amount in the preceding year. After they register as Collectors, our fans can enjoy a range of tiered benefits depending on their membership level, such as points redemption, discounts, promotion activities on birthday, priority in purchasing limited items, among others. All purchases, including both online and offline, can be used to accumulate “Growth Points” of the membership program. Through our membership program, we are also able to interact with our fans in a frequent, efficient and real time manner. The number of our registered members experienced continuous growth during the Track Record Period. As of the Latest Practicable Date, we had over 4.7 million registered members.

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Conventions

We actively participate in conventions in the fields of pop toys, collectible figures and Animation, Comics and Games (ACG) each year. We also encourage our distributors, particularly key account customers, in China and overseas, to participate in such conventions. These conventions provide an opportunity for us to meet and engage with IP toy fans and also provide us with opportunities to scout and discover rising artists. We host various activities at our stalls in the conventions, including release of limited-edition products, autograph sessions and interactive games. We also participate in large-scale trade shows in China and overseas to promote our products to potential distributors and channel partners in the toy industry. As of the Latest Practicable Date, we had participated in over 40 conventions and trade shows in China and overseas countries, including Japan, Thailand and United States.



Other than large-scale conventions, we had organized 35 pop-up events in China and overseas as of the Latest Practicable Date. We cooperate with large shopping centers to host such exhibitions and activities, where large numbers of consumers can be attracted and enjoy the fun of IP toy culture.

Online Marketing

We adopt a content-driven online marketing strategy that enables us to effectively reach and maintain a broad base of fans and consumers and collect feedback on our products. As our toys focus on the interactive experience, they are naturally suitable for content-driven marketing videos and photos, which demonstrate the innovative interactive features of our toys. We use multiple marketing channels, including our official social media accounts, our official “52TOYS” mobile app and the accounts of KOCs, influencers and fans on social media platforms.

- *Official accounts.* We utilize social media platforms to demonstrate the potential of our IP toys. We publish high-quality images and videos that highlight our product design and the IP character

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elements to promote our products and strengthen brand awareness. Marketing videos are particularly suitable for our mecha & model kits and wind-up toys to demonstrate the transformation or assembling process or the movements of toys. The comment sections beneath these posts provide opportunities for fans to share their comments about the products, ask questions about specific toy, and offer helpful tips to other consumers. By closely monitoring metrics such as fan growth, video views and the number of comments on our posts, we gain valuable insights into consumer preferences which allow us to identify popular products and address any feedback raised in the comments. Separately, we dynamically adjust the timing of new product launches and marketing content releases based on the relevant content release schedule of the IP proprietor, effectively supporting our product marketing. We have official accounts on different social media platforms, including, among others, *Weibo*, *WeChat*, *Xiaohongshu*, *Douyin* and *Bilibili*, covering a wide range of audience.

- *Mobile app*. We launched our self-developed online community mobile application for fans to access IP toy information and updates, trade IP toys and accessories and engage in social interaction with other fans alike. By trading IP toys and interacting with others on our “52TOYS” mobile app, fans gain more understandings of the products they like and may become interested in other products, resulting in new purchases and repeat purchases. Therefore, through our “52TOYS” mobile app, we are able to effectively enhance stickiness of our fans, and to gain insights into market updates and customer preference, which in turn enable us to constantly develop and promote popular IP toy products.
- *Collaborations with key opinion consumers (KOCs) and influencers*. KOCs and influencers we collaborate with play a crucial role in our content-driven online marketing strategy. These KOCs and influencers publish a wide range of content in different forms including videos and posts, demonstrating the features of our products. For example, there are posts to show (i) the design and features of our new products in detail, including the appearances and innovative features, to promote the sales of new products; (ii) transformation and assembling experience that demonstrates the consistent quality and play experience of our products; (iii) re-touch and modification of our products, encouraging consumers to personalize their creations; and (iv) recreations of classical animation scenes using our products, mobilizing fans of the IP. Our collaboration with KOCs and influencers is an effective way for us to reach our target consumers and further establish our brand awareness among them. During the Track Record Period, we worked with more than 1,000 KOCs and nearly 250 influencers across various online platforms.
- *User generated content (UGC)*. We foster deep connection with fans, encouraging them to create UGC on social media platforms and participate in our annual original design competition. Through official reposting and event operations such as play experience sharing, assembling and transformation competition and offline exhibitions, we further promote the creation and sharing of UGC by fans. Such UGC also provides opportunities for fans to connect with each other, share ideas and inspire a broader community. For example, the launch of our Crayon Shin-chan “Dynamic Shin-Life” series generated a large amount of UGC videos, posted with the hashtag of such series on *Xiaohongshu* and *Douyin*, promoting lively discussion and accumulating over 20.0 million views.

SALES NETWORK

We sell our products through a comprehensive and extensive sales and distribution network, which consists of (i) direct sales through our brand stores, roboshops, flagship stores on mainstream e-commerce platforms, “52 TOYS” *WeChat* mini program and mobile app; (ii) distribution through domestic and overseas distributors, and (iii) consignment sales at museums, amusement parks and tourist attractions in China for some of our BeastBox and Modern Ancient Series products. See “—Our IP Portfolio—Our Proprietary IPs—Our Sci-Fi IPs—BeastBox (猛獸匣)” and “—Our IP Portfolio—Our Proprietary IPs—Our

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Cultural IPs—the Modern Ancient Series (超活化).” During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disagreements with our distributors, consignment sales partners and e-commerce platform operators or breach of contractual terms by them.

The table below sets forth the breakdown of our revenue by sales channel for the periods indicated.

	Year Ended December 31,					
	2022		2023		2024	
	(RMB in thousands, except for percentages)					
Direct Sales	146,181	31.6%	168,771	35.0%	194,757	30.9%
Distributor sales	308,571	66.7%	299,711	62.1%	420,952	66.8%
Consignment Sales	2,108	0.4%	9,931	2.1%	13,428	2.1%
Others ⁽¹⁾	6,059	1.3%	3,895	0.8%	993	0.2%
Total	462,919	100.0%	482,308	100.0%	630,130	100.0%

Note:

(1) Others primarily include revenue from licensing our proprietary IPs.

Since 2017, we have strategically ventured into overseas markets and continuously cultivated our presence. As of December 31, 2024, we had successfully expanded into key markets such as Southeast Asia, Japan & South Korea and North America with 90 overseas distributors and a network of 16 overseas authorized brand stores operated by our authorized distributors, and established presence across leading e-commerce platforms such as *Amazon*, *Shopee* and *TikTok*. The table below sets forth the breakdown of our revenue by geographic regions for the periods indicated.

	Year Ended December 31,					
	2022		2023		2024	
	(RMB in thousands, except for percentages)					
Mainland China	427,550	92.4%	423,743	87.9%	482,747	76.6%
Overseas	35,369	7.6%	58,565	12.1%	147,383	23.4%
Total	462,919	100.0%	482,308	100.0%	630,130	100.0%

We target to maintain consistent pricing for our products across different sales channels. We provide suggested retail prices to all distributors, consignment sales partners and e-commerce platforms. We actively monitor retail prices through various measures, including regular online and offline price checks. The purpose of these checks is to ensure that our pricing remains largely consistent, minimizing major discrepancies that could undermine our market strategy. If we detect any significant price deviations, we actively engage and communicate with the relevant party to identify the causes of such actions, reach mutually acceptable solutions such as adherence to our suggested retail price. We then continue to monitor the implementations thereof. Should the deviation persist, we may decide to terminate our cooperation with the relevant party. During the Track Record Period and up to the Latest Practicable Date, we did not experience persistent deviation of the suggested retail prices and did not terminate cooperation with distributors or consignment sales partners due to such reasons.

Direct Sales

We sell our products directly to consumers through (i) our brand stores, (ii) our roboshops and (iii) online sales channels, including our flagship stores on mainstream e-commerce platforms in China and

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overseas, our *WeChat* mini program and our “52TOYS” mobile app. In addition to our own “52TOYS” brand stores, roboshops and flagship stores on e-commerce channels which offers a comprehensive selection of our products, we also separately operate BeastBox specialty roboshops and flagship stores on e-commerce channels, which primarily sell our mecha & model kits and action figures. We adopt such dual approach due to the difference in the target consumers of different types of products. See “—Our Product Offerings.”

Brand Stores

Our brand stores serve as our primary brand image showroom, which provides a wide selection of product series to meet the needs of consumers. As of the Latest Practicable Date, we had five brand stores in Beijing, Chengdu, Tianjin and Yangzhou. Our brand stores generally have a GFA ranging from 80 to 200 sq.m.



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We have designated staff responsible for the operation and restocking of each brand store. In addition to our central warehouses, we usually have a small-size warehouse in the shopping mall where our brand store is located to ensure the timely replenishment of stocks. Brand stores are an important channel for us to establish presence, showcasing our diverse and dazzling product portfolios and build direct connections with our fans. We leverage our brand stores to gather large numbers of fans, experiment with products, upgrade shopping experiences and enhance brand awareness. As our toys focus on the interactive experience, particularly for mecha & model kits, action figures and wind-up toys, our brand stores provide opportunities for consumers to engage with our toys and enjoy their features, thereby promoting sales. We also display products of different texture, such as flock, vinyl, plush and slow rebound materials, in our brand stores and encourage consumers to touch and feel the difference in texture of each product.



In 2022, 2023 and 2024, we opened four, two and one new brand stores, respectively, and closed one, six and six stores during the same period, respectively. Our number of brand stores decreased during the Track Record Period, primarily as we adjusted our offline sales channel deployment and certain stores were negatively affected by the COVID-19 pandemic and the subsequent changes in the demographics of visitors in the shopping districts where such stores were located. Since January 1, 2025 and up to the Latest Practicable Date, we further closed six stores and opened one store. However, following our adjustment in the strategy of brand store deployment, we plan to set up new brand stores in the coming years, subject to market conditions. We plan to focus on expanding our flagship store network in key cities with high consumption power, extended fan base and established awareness of IP toy culture, while penetrating to more cities through standard brand stores to reach the vast potential market and promote and cultivate IP toy culture. See “Future Plans and Use of [REDACTED].” The following table sets forth the total number of our self-operated brand stores and their movement during the Track Record Period.

	Year ended December 31,		
	2022	2023	2024
Number of brand stores at the beginning of the period	16	19	15
Number of new brand stores opened during the period	4	2	1
Number of brand stores closed during the period	1	6	6
Number of brand stores at the end of the period	<u>19</u>	<u>15</u>	<u>10</u>

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In addition to brand stores, we also cooperate with shopping malls and launch short-term themed pop-up stores which help create an immersive shopping experience and enhance our brand. The term of our pop-up stores ranges from one to two months. As of the Latest Practicable Date, we hosted 35 pop-up stores, with the best-performing one generating GMV of over RMB3.5 million in 45 days.

We also participate in conventions in the fields of pop toys, collectible figures and ACG in China and overseas and sell our products to fans at these conventions. See “—Marketing and Consumer Engagement—Conventions.” We often launch new editions and limited editions of our products at the conventions.

Roboshops

In addition to traditional retail stores, we have set up cashier-less roboshops at shopping malls, to expand our consumer access and provide an engaging and playful shopping experience. We generally showcase and sell our bestselling products in our roboshop. Our roboshop can usually store approximately 34 SKUs of BeastBox products or 60 SKUs of blind box products. Our roboshop management system collects and keeps the back-up of various sales data. It is able to produce real-time statistics on sales, marketing and sales conversion, and stocking status of a roboshop. Therefore, we are able to monitor the sales of our roboshops in a real-time manner and are able to timely replenish stocks at our roboshops. We have a designated team responsible to replenish stocks at our self-operated roboshops.

Online Channels

Our fast-growing online channels, including our official stores on mainstream e-commerce platforms in China and overseas, “52TOYS” WeChat mini program and mobile app, provide convenient and fun shopping experiences. We operate official flagship stores on various e-commerce platforms in China and overseas, including *Tmall*, *Douyin*, *JD.com*, *Xiaohongshu*, *Pinduoduo*, *Amazon*, *Shopee* and *TikTok*. Our official stores on *Douyin* and *Tmall* are our key channels to attract new fans.

We also host live stream sessions on *Douyin*, *Tmall* and *Xiaohongshu* to promote and sell our products and engage with new and existing fans. Such e-commerce platforms may also partner with us to engage with influencers to promote our best-selling products, in the live stream sessions hosted by such influencers. In 2022, 2023 and 2024, our revenue from online channels were RMB116.1 million, RMB129.0 million and RMB139.2 million, respectively.

Distribution

Distributors

We sell our products through our distributors, who in turn resell our products through their retail shops or roboshops or to retailers. As of December 31, 2024, we had 336 distributors in China and 90 distributors overseas, covering Southeast Asia, Japan & South Korea and North America. As of December 31, 2024, we had authorized certain overseas distributors to operate our 16 overseas authorized brand stores. Our distributors primarily include large toy retailers, bookstore chains, boutique general store chains, cinema chains, transportation hub operators and reputable retail chains. A small amount of our distributors are museums, amusement parks and tourist attractions, which make targeted sales of our Modern Ancient Series and BeastBox products to visitors in their gift shops. In addition to the distributors’ own roboshops, we partner with our distributors to expand our “52TOYS” roboshop network. For “52TOYS” roboshops operated by our distributors, we provide roboshop machines to the distributors, which are responsible for the location rental and maintenance work, including the stocking frequency. Distributors and us jointly select the types of products to be sold at each of the roboshops. By providing distributors with our roboshop system, we have direct access to the sales data of such roboshops.

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We endeavor to leverage the established access of our distributors in China to local markets to expand the breadth and depth of our domestic presence. For overseas distributors, we leverage their better understanding of local markets and established local resources. Under the distributorship business model, when selecting distributors, we take into account a number of factors, including their qualifications, geographical base, locations of their retail points, distribution network, scope of operations and customers service capabilities. According to CIC, our existing distribution model is consistent with customary industry practice in China and overseas markets and serves to ensure the efficient coverage of our sales network while controlling our cost of distribution.

Management of Our Distributors

Our distributors are typically regional distributors or distributors of specific channels, such as large toy retailers, bookstore chains, boutique general store chains, cinema chains, transportation hub operators and reputable retail chains, primarily involved in the sale and distribution of toys, stationery, culture & creative and other products with a well-established retail or distribution network. The increased number of our distributors during the Track Record Period was in line with our business growth. The following table sets forth the total numbers of our distributors and their movement during the Track Record Period:

	Year ended December 31,		
	2022	2023	2024
Number of distributors at the beginning of the period	440	295	280
Number of new distributors during the period	119	135	235
Number of distributors terminated during the period	264	150	89
Number of distributors at the end of the period	295	280	426

We ceased to collaborate with certain distributors during the Track Record Period primarily because (i) we proactively managed our distributor network to improve our distribution efficiency, and (ii) certain distributors’ business conditions were impacted by their business strategy as well as the COVID-19 pandemic. In addition, we engaged a large number of distributors in 2024, which distribute to ACG boutique stores and gift shops at tourist attractions, to expand our distribution channel coverage.

We have a seller-buyer relationship with our distributors. Our distributors are only allowed to sell our products in the distribution channels approved by us. We generally provide a discount off our suggested unit sales prices for distributors based on the volume of products ordered and the specific distribution channel. We provide suggested retail prices to all distributors and actively monitor retail prices to ensure that our pricing remains largely consistent, minimizing major discrepancies that could undermine our market strategy. Revenue is recognized when control of the products has transferred, being when products are delivered to and accepted by our distributors. Generally, once the products are delivered to the distributors, they cannot be returned except for defective products, which is in line with industry practice, according to CIC. Although we do not require a minimum purchase amount or sales target for our distributors, we closely monitor the performance of our distributors. We assess inventory levels of our distributors based on their purchase orders and sales reports. If and when we notice that the sales volumes of certain distributors drop significantly, we may make inquiries and adopt necessary measures such as suspending the supply of relevant products. The primary purpose of such inventory assessment is to assist our adjustment of sales activities through our omni-channel sales network and assess the effectiveness of distributors.

Through these activities, we ensure that our sales to distributors reflect genuine market demand and our distributors are complying with the terms and conditions of their distribution agreements. If we discover non-compliance issues, we inform the relevant distributor and request the distributor to cease the non-compliant activities within a specified period of time. Our distributors are liable for breaches of their distribution agreements, and we can claim compensation from them for relevant breaches or terminate the distribution agreements for certain material breaches.

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To minimize any potential conflicts among our distributors and potential conflicts among our distributors, our consignment sales partners and our direct sales channels, we specify the designated distribution area or distribution channels for our distributors in the distribution agreement. We generally reserve the right to terminate a distribution agreement in the event the distributor breaches the requirements on geographic area and sales channel.

To the best knowledge of our Directors, all our distributors were independent third parties, and none of our distributors has any past or present business, employment, family, financing or similar relationships with our Directors, Shareholders, senior management or any of their respective associates, and our current or ex-employees or operated under our brand during the Track Record Period.

Key Terms of Distribution Agreements

We generally enter into standardized distribution agreements with our distributors, which help us efficiently manage our distributors and ensure an orderly market for our products. The key terms of our standardized distribution agreements included:

- *Duration.* The term of agreement is usually one year and is renewable upon mutual agreement.
- *Sales policies.* We generally grant our distributors non-exclusive rights to sell our products through designated channels in the designated distribution areas. Distributors are not allowed to resell our products outside of their designated distribution area or distribution channels without our approval or authorization.
- *Retail price management.* Distributors are required to ensure our products are sold at our suggested unit sales prices.
- *No early exposure.* Distributors are not allowed to disclose, display, sell or pre-sell any of our new products prior to its official announcement date.
- *Purchase price.* Our products are sold to the distributors at different discount levels to our suggested unit sales prices, and the extent of discount is generally negotiated and determined for each individual order on a case-by-case basis.
- *Sales target and minimum purchase amount.* No specific sales target or minimum purchase amount is required.
- *Credit terms.* We generally require distributors to make the payment before product shipment. However, for certain key account customers and credit-worthy distributors, we may generally grant a credit term of 30 days.
- *Product return.* We generally do not accept product returns after delivery and acceptance, except for product defects. Distributors are required to inspect products immediately following receipt and notify us of any quality defects. Distributors may return or exchange the defective products following the procedures provided in the distribution agreement.
- *No sub-distributors.* Our distributors are not allowed to sell our products to sub-distributors.
- *Confidentiality.* We and distributors mutually undertake not to disclose or inappropriately use the other party’s trade secrets.
- *Termination right.* We and the distributors are entitled to terminate a distributorship agreement upon the occurrence of certain events, such as a material breach, bankruptcy, revocation of business license or insolvency of the counterparty.

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Consignment Sales

We collaborate with museums, amusement parks and tourist attractions and make targeted sales in their gift shops for our BeastBox and Modern Ancient Series products. See “—Our IP Portfolio—Our Proprietary IPs—Our Sci-Fi IPs—BeastBox (猛獸匣)” and “—Our IP Portfolio—Our Proprietary IPs—Our Cultural IPs—the Modern Ancient Series (超活化).” We customize product selection for each museum, amusement park or tourist attraction based on the theme and setting and to effectively reach the target consumer of each product.



Most of such targeted sales are consignment sales. We made such consignment arrangements primarily due to our business arrangements with the respective consignment sales partner, which is in line with industry practice, according to CIC. Ownership of the goods remain with us until sales to consumers occur. We recognize revenue upon sales to end-consumers are made through consignment sales partners. As of December 31, 2022, 2023 and 2024, we had 12, 17 and 23 consignment sales partners, respectively

The salient terms of typical consignment agreements are set forth below.

- *Term.* The term of the agreement is typically one year.
- *Sales and pricing policy.* Consignment sales partners shall sell with reference to our suggested retail prices.
- *Settlement.* We settle with our consignment sales partners to collect sales proceeds every 30 days.
- *Ownership of the stock:* Products stocked up at the consignment sales partners’ retail outlets remain our properties and we carry the risk of any incidental loss or damages to such products until they are sold, except for certain limited circumstances.
- *Return of unsold inventory.* Upon termination of the agreement, we are responsible for collecting unsold relevant products within a period specified in the agreement. If we fail to collect the relevant products within such period, the consignment sales partners may dispose of the unsold products and retain the proceeds generated therefrom.
- *Termination rights.* We and the consignment sales partners are entitled to terminate the agreement in case of material breach of the counterparty.

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Consumer Support and Protection

We are committed to offering high-quality consumer support which reflects the high level of consumer satisfaction we strive to achieve. Our consumer care team responds to consumers’ queries, requests and feedback. We regularly seek consumer input and address their queries through a variety of channels, including offline stores, consumer care hotlines, online e-commerce platforms, our *WeChat* mini program and our “52TOYS” mobile app. Product defects can also be reported through these channels. Our consumer care staff keeps track of all inquiries, feedback and complaints, as well as the outcomes of any potential follow-ups or solutions in these areas. Our direct sale product return policy stipulates that we accept returns and exchanges before the products are unpacked and generally only accept product exchanges for defective products. If there is any product defect, we will deal with the claims from consumers and bear the relevant product liabilities. To the extent the defect is caused by our partner factories, we would seek indemnity from them. See “—Manufacturing.” We have not experienced any consumer complaint or product returns that materially and adversely affected our business during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, some of our products were in the form of blind boxes, which is a popular form in the toy industry according to CIC and is allowed according to the relevant laws and regulations, including the Blind Boxes Guidelines. See “Regulatory Overview—Regulations on IP Toys—Regulations on Blind Boxes.” We have adopted various measures and internal policies for blind boxes to ensure compliance with the relevant laws and regulations. Particularly, we set out key information relating to the product (such as the range of models that may be selected from a chosen box and the probability of each model being selected) and include appropriate language regarding age limits and other information disclosure in accordance with the relevant laws and regulations on our online sales channels as well as on the packaging of the relevant products. According to CIC, our measures and internal policies for blind boxes are in line with the industry norm. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any administrative penalties relating to the sales of products in the form of blind boxes.

MANUFACTURING

Our Partner Factories

We collaborate with specialized third-party factories to manufacture our products. Working with a network of professional factories enables us to focus on key stages of the product launch cycle, such as product design, product marketing and brand management, rationalize capital investment and resource allocation to effectively adjust our product offering in response to evolving market trends. In 2024, we collaborated with over 60 partner factories in China. These partner factories were selected based on factors such as qualification, size of operation, experience, product quality, production capacity, pricing, automation capability, equipment, reputation and compliance with applicable laws and regulations. We typically station our staff at the partner factories to oversee the production processes in order to make sure that our products are produced according to our high quality standards.

Manufacturing Process

Generally, our products are manufactured through the following process:



- *Mold development.* We engage mold factories to create molds used to shape the toy components based on our design. We maintain strict precision standards for mold factories to ensure detailed features of our products can be manufactured with the molds. For each mold, we run small-batch test shots to make sure the molded parts can be assembled seamlessly before we proceed to the color development.

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- *Color development.* We work with partner factories to mix and test different paint colors to ensure that the colors align with our design and achieve the desired visuals for our products. We make sample color plates to test the final outcome of different paints. We proceed to mass production only after both mold and paint are confirmed through test shots or sample plates.
- *Injection.* We provide the manufacturing mold to our partner factories, which then use the mold to inject plastic or our designated materials, forming the individual parts of a product. We select and screen the injection materials to achieve the desired texture of our products.
- *Painting.* Our partner factories then apply paint to the molded parts using spray techniques for consistent and even coverage to paint our products.
- *Assembly.* After all parts are painted, our partner factories combine parts to construct complete products. We require our partner factories to pay close attention to detail to ensure parts fit together seamlessly.
- *Packaging.* We separately procure the packaging of our products and provide them to our partner factories.
- *Quality assurance.* We conduct quality inspections after each stage to make sure the finished products meet our quality standards.

Agreements with Partner Factories

We enter into framework production agreements with our major partner factories. Under these agreements, we place production orders with our partner factories specifying the SKU, quantity, price, delivery method and delivery time. The key terms of our collaboration with partner factories are set out below:

- *Production:* We engage the partner factories to produce our designed products according to the specifications and requirements in the agreements and specific orders.
- *Raw materials:* Our partner factories are responsible for the procurement of qualified key raw materials that can pass our product quality assurance.
- *Product quality:* The products delivered by the partner factories shall meet the quality standards of applicable laws and regulations, as well as the industry standards. The partner factories are required to strictly comply with the product standards specified in our agreements, including the design, shape, color, key raw materials, quality control standards, production qualifications and testing equipment, among others. Upon receiving the products, we will inspect the products and reserve the right to return non-compliant products to the factories.
- *Minimum order amount.* No specific minimum order amount is required.
- *Supervision:* We reserve the right to take necessary measures to supervise the overall production process at the partner factories, including approval of raw material procurement, production, quality control and logistics.
- *Duration:* Typically, the duration of our production agreement with the partner factories is one year.
- *Fees and pricing:* We pay for the finished goods produced by the suppliers. Generally, the prices for the final products delivered are specified in the individual orders under the agreement.

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- *Payment:* We are typically required to pay our partner factories an upfront payment upon order placing and the final payment within 45 days after receipt and acceptance of the goods.
- *Intellectual property rights:* The partner factories have no intellectual property rights in relation to any products, packaging or molds under the agreements and specific orders thereof.
- *Confidentiality:* We require partner factories to keep strictly confidential of all operating information, marketing plans, product drafts, pictures and other confidential information as specified in the confidentiality agreement, until such information is rendered public by us.
- *Liability:* Our partner factories are responsible for all product liabilities and claims resulted from product defects caused by the partner factories and shall indemnify us of any loss resulted therefrom.
- *Termination:* The agreement may be terminated by either party in the event of material breaches of certain terms.

Quality Management

The quality and safety of our products are crucial. We endeavor to ensure the quality of our products through a comprehensive quality management system. Our quality management system was formulated in accordance with strict domestic and global quality standards, covering product design and development, raw material suppliers, production, warehousing and logistics. We have a dedicated quality control team, consisting of 32 employees as of December 31, 2024.

We take into account product quality at design and development stage. We apply DFM design method to prevent potential issues in molding and production processes to ensure product quality. We also take into account product quality when designing the prototype and molds for our products, ensuring consistency of quality across our product offering.

We ensure quality control by actively reviewing the manufacturing process and testing the products manufactured by our partner factories. We have adopted strict quality control measures over our manufacturing process including post-production inspection and final quality control to ensure product quality. We assess the toys produced with strict domestic and global quality standards including GB6675-2014, ASTM F963 and EN71. In addition, we typically have staff stationed at the partner factories to oversee the production processes in order to make sure that our products are produced according to our quality standards. We require our manufacturers to strictly follow any applicable laws, regulations and industry standards. To the best knowledge of the Company, all of our partner factories as of the Latest Practicable Date have obtained the requisite licenses and complied with our internal standards during the Track Record Period. We have formed detailed internal standards with respect to raw materials and packaging materials based on applicable legal requirements. For example, we request our manufacturers to comply with relevant requirements and our quality control standards. We request packaging materials used comply with the content limits for lead, cadmium, mercury and chromium pursuant to national standard GB/T 16716.1-2018 relating to packaging and environment protection. For other raw materials of our products, we primarily ensure compliance with the relevant requirements under national standards GB 6675-2014 for toy safety and GB/T 26701-2011 for general technical requirements for model products.

For product storage, we have a dedicated team that manages our warehouses with an ERP system to ensure proper storage. For logistics, strict criteria are used to select third-party logistics services providers, with ongoing performance evaluation to avoid physical damage of our products during transportation.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any major customer complaints on product quality or any product liability claims, product recalls or legal consequences, which, individually or taken together, resulted in a material and adverse effect on us.

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LOGISTICS AND INVENTORY MANAGEMENT

Warehouse

As of December 31, 2024, we leased and operated two central warehouses with a total GFA of approximately 18,000 sq.m. in China. We typically enter into agreements with our warehouse service providers for a term of five years. We have a dedicated team responsible for the management of the storage of our products. See “—Manufacturing—Quality Management.”

Transportation and Logistics

To transport our products within our extensive sales network efficiently, we engage third-party logistics services providers to deliver our products. We usually enter into agreements with our logistics service providers with a term of one year. Our logistics service providers bear the risks associated with the delivery of products and are required to have necessary insurance coverage. For any *ad hoc* product transport needs, we may use other temporary logistics service providers. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material disruption in the delivery of our products or suffered any material loss due to late delivery or mishandling of products by our logistics service providers. See “—Manufacturing—Quality Management.”

Inventory Management

During the Track Record Period, most of our inventories were finished goods. We initiate production order based on internal sales forecast, so as to optimize inventory turnover. We have implemented stringent inventory management measures to maintain an optimal level of inventory. We also set inventory turnover rate management indicators that we monitor and optimize, to assess the efficiency of our inventory management.

INTELLECTUAL PROPERTY

Intellectual property is fundamental to maintain our competitiveness. Our license agreements permit us to use the IPs of our 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 intellectual property rights (including copyright) from IP proprietors and IP licensors. See “—IP Licensing Arrangements.”

We rely on a combination of patent, copyright, trademark and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions, to protect our intellectual property. As of the Latest Practicable Date, we had registered 284 patents, 582 trademarks and 602 copyrights in China. As of the same date, we also had 121 trademarks overseas.

We did not have any material disputes or any other pending legal proceedings of intellectual property rights with third parties during the Track Record Period and up to the Latest Practicable Date. Based on our constant monitoring of publicly available information, our Directors, to their best knowledge, are not aware of any potential or threatened lawsuits and claims in relation to intellectual property infringement that is material to our business operations during the Track Record Period and up to the Latest Practicable Date.

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IP Licensing Arrangements

We enter into licensing agreement with the IP proprietors or licensors. Our IP management department, which consisted of 13 employees as of December 31, 2024, is primarily responsible for the license-in of IPs and license-out of our proprietary IPs. As of December 31, 2022, 2023 and 2024, we had 51, 47 and 43 IP licensing agreements in effect with 32, 32 and 27 IP proprietors or licensors, respectively. Below set forth the key terms of the license agreements:

- *Licensing rights.* For non-exclusive licensing arrangements, the IP proprietors or licensors grant us the non-exclusive rights to design, develop, manufacture and sell products as specified in the agreements in specific regions based on their IPs as specified under the agreements during the term of the agreements.

For exclusive licensing arrangements, the agreements provide us the exclusive rights to develop, manufacture and sell products in specified regions including China based on their IPs during the term of the agreements.

- *Product type.* The licensing agreements may specify the type of products we have the right to develop, manufacture and sell. Generally, we have the right to develop and sell toys and certain accessories under the licensing agreements.
- *Use of logo and trademark.* We are authorized to use the official logo and trademark of the licensed IPs on the packaging of our products.
- *Sub-license.* We are generally not allowed to sub-license the IPs under the license agreement.
- *Duration.* The initial term of our licensing agreements is generally from one to three years. The agreements are generally not automatically renewable and do not provide predetermined conditions for renewal, but can be renewed or extended upon mutual agreement. According to CIC, such arrangements are in line with industry practice. For some licensing agreements, we may have priority in renewing the license under the same conditions when the agreement is about to expire. During the Track Record Period, we did not encounter any difficulties in renewing licensing agreements with IP proprietors or licensors.
- *Fee agreements.* For each year, we generally pay IP proprietors or licensors the higher of a minimum guarantee and an amount predetermined by formulas based on sales performance or production volume of the products developed under the IPs. According to CIC, our fee arrangements with IP proprietors or licensors are in line with industry standards.
- *Sell-off period.* We are typically allowed to sell the unsold products developed under the IPs within three months after the termination of the license agreement.
- *Validity of IP rights and Infringement.* The IP proprietors or licensors represent that they have the relevant intellectual property rights or full authorization in relation to the IPs. If we incur losses as a result of defects in the IP proprietor’s or licensor’s intellectual property rights, the IP proprietor or licensor shall be held liable for breach of contract. Typically, the IP proprietors or licensors provided us with indemnity or agreed to pay liquidated damages in the event of infringement of third-party IP rights relating to the licensed IPs. Separately, we conduct thorough checks to ensure the legitimacy of the rights held by IP proprietors or licensors. See “—IP Protection.”
- *Termination.* Either we or the IP proprietors or licensors are entitled to terminate the agreement upon the occurrence of certain specified events, such as a material breach, bankruptcy or revocation of business license of the counterparty. We and the IP proprietors or licensors can also terminate the agreement in writing upon mutual agreement.

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IP Protection

We employ stringent measures to protect our rights under proprietary IPs and licensed IPs. In addition, we have a special task force to comprehensively monitor and handle IP infringements.

Proprietary IPs

In safeguarding our proprietary IPs, we implement rigorous internal protocols to ensure comprehensive protection. This involves thorough documentation of the creation of the IP and prompt registration of the relevant intellectual property rights. In addition, we proactively monitor public IP registration platforms and appearances of our proprietary IPs and actively seek remedies for any potential or identified infringements.

Licensed IPs

To safeguard our rights under the licensed IPs, we conduct thorough checks to ensure the validity of the rights held by IP proprietors or licensors. This involves reviewing their licenses and researching to confirm no conflicts or infringements exist. We also have contractual protection under the licensing agreements. We require IP proprietors or licensors to represent that they have the relevant intellectual property rights or full authorization in relation to the IPs. If we incur losses as a result of defects in the IP proprietor’s or licensor’s intellectual property rights, the IP proprietor or licensor shall be held liable for breach of contract. In addition, similar to proprietary IPs, we implement robust protection procedures and protocols.

OUR CUSTOMERS

Our customers primarily include distributors and consumers. Our sales to the five largest customers in each year during the Track Record Period were no more than 30% of our total sales for the same periods. During the Track Record Period and up to the Latest Practicable Date, none of our Directors, their associates or any of our current Shareholders (who, to the knowledge of our Directors, own more than 5% of our share capital) had any interest in any of our five largest customers in each year during the Track Record Period that are required to be disclosed under the Listing Rules.

Third-party Payment Arrangements

Historically, some of our distributors (individually or collectively, the “Relevant Distributors”) settled their payments with our Group through accounts of third-party payors designated by these Relevant Distributors at their requests (the “Third-Party Payment Arrangement(s)”). During the Track Record Period, third-party payors designated by the Relevant Distributors primarily included the Relevant Distributors’ shareholders, senior management and their spouses. Our Directors have confirmed that none of the third-party payors designated by the Relevant Distributors during the Track Record Period is a connected person of our Group and such designated third-party payors are independent from any of our Group’s Directors, senior management and Shareholders. See “Risk Factors—Risks Relating to Our Business and Industry—We are subject to various risks relating to Third-party Payment Arrangements.”

In 2022, 2023 and 2024, a total number of 40, 60 and 22 Relevant Distributors utilized the Third-Party Payment Arrangements to settle payments with us, respectively. During the same periods, the aggregate amount of payments from their designated third-party payors was RMB46.1 million, RMB41.6 million and RMB19.2 million, respectively, representing approximately 10.0%, 8.6% and 3.0% of our revenue, respectively. Throughout the Track Record Period, no individual Relevant Distributor in China made a material contribution to our revenue. As of the Latest Practicable Date, we had ceased all Third-Party Payment Arrangements.

To the best of our knowledge, the Relevant Distributors requested to utilize the Third-Party Payment Arrangements to settle payments with us for their own convenience and flexibility. These Relevant

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Distributors commonly opted for settlements through personal accounts held by designated third-party payors, such as the Relevant Distributors’ shareholders, senior management and their spouses. As confirmed by CIC, it is not uncommon for distributors to use third-party payors to settle corporate transactions with their suppliers due to convenience and flexibility.

Our Directors confirm that, during the Track Record Period, (i) the Third-Party Payment Arrangements were initiated by the Relevant Distributors, rather than our Group for the purpose of circumventing any applicable laws and regulations, (ii) we did not participate in any other forms of such arrangement, (iii) we did not provide any discount, commission, rebate or other benefits to any of the Relevant Distributors to facilitate or encourage the Third-Party Payment Arrangements, (iv) the pricing and payment terms of the agreements we entered into with the Relevant Distributors were generally in line with those of distributors not involved in the Third-Party Payment Arrangements, (v) all payments received under the Third-Party Payment Arrangements were appropriately recorded following accounting procedures and policies, and (vi) we had not been subject to any actual or pending disputes or administrative penalties related to the Third-Party Payment Arrangements during the Track Record Period and up to the Latest Practicable Date.

We have enhanced our internal control to manage the risks associated with the Third-Party Payment Arrangements, including (i) requiring all of our distributors to settle payments with us through their own bank accounts, and no third-party payors would be allowed; and (ii) before accepting any third-party payment, we verified the payment information to ensure that such payment was settled through the relevant distributor’s account. In consideration of the above, and on the basis that (i) settlements under the Third-Party Payment Arrangements were supported by genuine transactions, (ii) the Third-Party Payment Arrangements in China are not prohibited by the Civil Code of the PRC (《中華人民共和國民法典》) or other pertinent laws or regulations in China, and (iii) our Group had not been subject to any actual or pending disputes or administrative penalties related to the Third-Party Payment Arrangements during the Track Record Period and up to the Latest Practicable Date, our Directors are of the view, as advised by the PRC Legal Advisors, that the Third-Party Payment Arrangements do not contravene or circumvent applicable laws or regulations in the PRC in all material aspects.

Based on the follow-up review of the implementation of these measures, our Directors are of the view that these measures are effective and adequate in preventing unauthorized Third-Party Payment Arrangements and the associated risks. Going forward, our Directors will continue to oversee the effectiveness of the aforementioned enhanced internal control on the Third-Party Payment Arrangements.

Based on the foregoing advice from our PRC Legal Advisors, and considering that (i) payments from designated third-party payors of the Relevant Distributors were immaterial during the Track Record Period, representing approximately 10.0%, 8.6% and 3.0% of our total revenue in 2022, 2023 and 2024, respectively, (ii) we encountered no material payment collection issues from the Relevant Distributors up to the Latest Practicable Date after ceasing the Third-Party Payment Arrangements, (iii) we had not experienced any disputes with the Relevant Distributors up to the Latest Practicable Date after ceasing the Third-Party Payment Arrangements, (iv) our liquidity and financial performance had not been materially impacted up to the Latest Practicable Date after ceasing the Third-Party Payment Arrangements with our distributors, and (v) we have strengthened internal controls to manage associated risks as detailed above, we believe that the termination of the Third-Party Payment Arrangements did not, nor is expected to, have any material and adverse effect on our business, results of operations and financial conditions.

RAW MATERIALS AND SUPPLIERS

Our Raw Materials

The raw materials of our products primarily include ABS, PVC, paint and ink, gear boxes, cloth, ironware and packaging materials, such as color box, blister, aluminum foil bag, PE film (polyethylene film), desiccant, paper card and cardboard box. Raw materials are of vital importance as they can directly

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affect the quality, appearance and texture of finished products. Our partner factories are responsible for the procurement of qualified key non-packaging raw materials that can pass our product quality assurance. During the Track Record Period, we or our partner factories did not experience any material incidents of supply interruption or failure to secure sufficient quantities of raw materials.

Our Suppliers

Our suppliers primarily include toy and mold factories and IP proprietors and licensors. See “—Our Designers and Creative Process—Our Creative Process—Licensed IPs” and “—Manufacturing—Our Partner Factories” for details of our selection of suppliers. Purchases from our partner factories accounted for the majority of our purchases during the Track Record Period. In 2022, 2023 and 2024, purchases from our five largest suppliers in each year during the Track Record Period accounted for 34.2%, 46.2% and 42.8% of our total purchases for such year during the Track Record Period. In 2022, 2023 and 2024, purchases from our largest supplier in each year during the Track Record Period accounted for 11.3%, 23.3% and 15.7% of our total purchases for such year during the Track Record Period. The table below sets forth the details of our five largest suppliers in each year during the Track Record Period.

Supplier	Commencement of Business Relationship	Purchase Amount (RMB'000)	% of Total Purchases	Goods/Services Procured	Credit Terms
Year ended December 31, 2024					
A	2018	105,202	15.7	Finished toy products and molds	45 days
B	2020	59,766	8.9	Finished toy products	45 days
C ⁽¹⁾	2018	47,832	7.1	Licensed IPs	contractual milestones
D	2021	41,721	6.2	Finished toy products and molds	45 days
E	2020	32,628	4.9	Finished toy products	45 days
Total		<u>287,149</u>	<u>42.8</u>		
Year ended December 31, 2023					
A	2018	86,400	23.3	Finished toy products and molds	45 days
E	2020	36,796	9.9	Finished toy products	45 days
B	2020	17,264	4.7	Finished toy products and molds	45 days
D	2021	15,810	4.3	Finished toy products and molds	45 days
F	2021	14,835	4.0	Warehouse management service	45 days
Total		<u>171,105</u>	<u>46.2</u>		
Year ended December 31, 2022					
A	2018	54,663	11.3	Finished toy products and molds	45 days
E	2020	38,378	8.0	Finished toy products	45 days
D	2021	35,841	7.4	Finished toy products and molds	45 days
G	2021	19,307	4.0	Finished toy products and molds	45 days
B	2020	17,045	3.5	Finished toy products and molds	45 days
Total		<u>165,234</u>	<u>34.2</u>		

Note:

(1) Supplier C was an overlapping customer during the Track Record Period. See “—Overlapping Customers and Suppliers.”

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During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, none of our Directors, their associates or any of our current Shareholders (who, to the knowledge of our Directors, own more than 5% of our share capital) had any interest in our five largest suppliers in each year during the Track Record Period that are required to be disclosed under the Listing Rules.

OVERLAPPING CUSTOMERS AND SUPPLIERS

One of our five largest customers in 2024 belongs to the same group of one of our suppliers during the Track Record Period (“Customer-Supplier A”). Customer-Supplier A is a Japanese manufacturer of hobby products. During the Track Record Period, we distributed our products through Customer-Supplier A’s sales channels in Japan. To enrich the variety of our product offerings, we also made bulk purchases of Customer-Supplier A’s IP toy products during the Track Record Period. In 2022, 2023 and 2024, our sales to the Customer-Supplier A amounted to RMB4.8 million, RMB4.4 million and RMB18.2 million, accounting for 1.0%, 0.9% and 2.9% of our revenue during the same years, respectively, and our purchases from Customer-Supplier A amounted to RMB5.3 million, RMB0.9 million and nil, accounting for 1.1%, 0.2% and nil of our total purchases in the same years, respectively.

One of our five largest customers in 2023 was also our supplier during the Track Record Period (“Customer-Supplier B”). Customer-Supplier B is a mainstream e-commerce platform in China. During the Track Record Period, we distributed through a “52TOYS” store operated by Customer-Supplier B and procured marketing and technical support service for our self-operated flagship stores on such e-commerce platform. In 2022, 2023 and 2024, our sales to Customer-Supplier B amounted to RMB8.0 million, RMB10.9 million and RMB14.4 million, accounting for 1.7%, 2.2% and 2.3% of our revenue during the same years, respectively, and our purchases from Customer-Supplier B amounted to RMB1.6 million, RMB2.1 million and RMB3.4 million, accounting for 0.3%, 0.6% and 0.5% of our total purchases in the same years, respectively.

A subsidiary of one of our five largest customers in 2022 was also our supplier during the Track Record Period (“Customer-Supplier C”). Customer-Supplier C is a large boutique general store chain in China. During the Track Record Period, we distributed our products through Customer-Supplier C’s stores. We also made bulk purchases of IP accessories from Customer-Supplier C to enrich the variety of our product offerings in 2022. In 2022, 2023 and 2024, our sales to Customer-Supplier C amounted to RMB30.6 million, RMB8.2 million and RMB9.2 million, accounting for 6.6%, 1.7% and 1.5% of our revenue during the same years, respectively, and our purchases from Customer-Supplier C amounted to RMB0.1 million, nil and nil, accounting for 0.03%, nil and nil of our total purchases in the same years, respectively.

One of our five largest suppliers in 2024 was also our customer during the Track Record Period (“Customer-Supplier D”). Customer-Supplier D is a multinational mass media and entertainment conglomerate. During the Track Record Period, we procured IP licenses from Customer-Supplier D, which was attracted by our products developed based on their IPs, and made procurements from us of such products to sell in their distribution channels. In 2022, 2023 and 2024, our purchases from Customer-Supplier D amounted to RMB18.1 million, RMB1.6 million and RMB47.8 million, accounting for 3.7%, 0.4% and 7.1% of our total purchases in the same years, respectively, and our sales to Customer-Supplier D amounted to RMB29,000, RMB2.6 million and RMB1.9 million, accounting for 0.01%, 0.5% and 0.3% of our total revenue during the same years, respectively.

COMPETITION

The IP toy market in China is still in its early stages of development, but has increasingly gained public attention in recent years, supported by a broad user base and rapid market expansion. According to CIC, the IP toy market in China is relatively fragmented, with the top ten companies accounting for 46.1% of the aggregate China GMV in 2024. Our competitors comprise both international brands and domestic brands.

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We compete on various factors, including IP management capabilities such as selection, creation and operation of IPs, product development, diversity of product portfolio, supply chain management and brand marketing. See “Risk Factors—Risks Relating to Our Business and Industry—As an IP toy company, it is critical for us to adjust our product portfolio to keep pace with changing consumer preferences and industry trends. If we fail to achieve timely product iteration, we may not be able to attract and retain our customers, which could have a material adverse effect on our business, financial conditions and results of operation” and “Industry Overview” for more information about the market where we operate and the competition we face.

AWARDS AND RECOGNITION

The following table sets out selected awards and recognition we have received as of the Latest Practicable Date.

Year	Awards or Recognition	Issuing Authority
2024	2024 Influential and Attitude Brand (2024年度影響力態度品牌)	36Kr
2023	Outstanding Innovative Product (優秀創新產品): BeastBox (Infinity Box) — <i>The Wandering Earth 2</i> “Ben Ben”	China Children and Toy Products Association (中國嬰童和玩具用品協會)
2023	High-Quality Growth Brand of the Year (年度高質量成長品牌)	Waves New Consumption (浪潮新消費)
2023	Growing New Consumer Forces Enterprise (消費新勢力成長企業)	CaiLianShe (財聯社)
2022	Young and Trendy Consumer Brand (年輕力興趣消費品牌)	Dewu (得物)
2022	Interesting Brand of the Year (年度有意思品牌)	<i>China Newsweek</i> (中國新聞周刊) “Interesting Report” (有意思報告)
2021	Beijing Chaoyang High-Tech High-Growth TOP20 (北京朝陽 高科技高成長TOP20)	Deloitte China, Chaoyang Park Management Committee of Zhongguancun Science Park (中關村科技園區朝陽園管理委員會)
2021	“THE BRAND X” China New Consumer Brand Power List (中國新消費品牌力榜單)	Iyio.com (億歐網)
2021	Beijing Top 100 Private Enterprises in Culture (北京民營企業文化百強)	Beijing Federation of Industry and Commerce (北京市工商聯)
2020	IP Value List of the Year — IP Operating Company Value (年度中國IP價值榜—IP運營公司價值)	IP Valuer (IP價值官)
2020	Beijing Cultural Consumption Brand List-Top 10 Cultural and Creative Products (北京文化消費品牌榜—十大文化創意產品): BeastBox	Beijing State-Owned Cultural Assets Management Center (北京市國有文化資產管理中心), Beijing Municipal Bureau of Culture and Tourism (北京市文化和旅游局), Beijing Municipal Relics Bureau (北京市文物局), Beijing Broadcasting Bureau (北京市廣播電視局)
2020	China’s Golden Finger Awards – Best New Consumer Platform/Brand (中國金指尖獎—最佳新消費平臺/品牌)	iiMedia Research
2018	Innovative Unicorn of the Year (年度創新獨角獸)	INEWS, Esports World (電競世界), Game Forum (遊戲論壇)

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LICENSES, REGULATORY APPROVALS AND PERMITS

During the Track Record Period and up to the Latest Practicable Date, we had obtained all requisite licenses, permits, approvals and certificates from the relevant government authorities that are material for our business operations. We had not experienced any material difficulties in renewing material licenses, permits or certificates during the Track Record Period and up to the Latest Practicable Date and do not expect there to be any material difficulties in renewing them upon their expiry, if applicable. During the Track Record Period and up to the Latest Practicable Date, we had not been penalized by any government authorities for non-compliance relating to material licenses, permits or certificates.

EMPLOYEES

As of December 31, 2024, we had a total of 400 full-time employees. All of our employees were located in China. The following table sets forth our full-time employees by functions as of December 31, 2024.

Function	Number of Employees	Percentage
Research and development	113	28.3%
Sales	153	38.3%
Marketing	61	15.3%
Management and administrative	73	18.3%
Total	400	100.0%

Our success, to a considerable extent, depends upon our ability to attract, motivate and retain a sufficient number of qualified employees. We use various methods for our recruitment, including recruiting websites, job fairs, third-party recruiters and internal referral, to satisfy our demand for different types of talents. We believe we offer our employees competitive compensation packages and an environment that encourages self-development and creativity. In addition, we design and offer various training programs for employees of different departments and positions, covering subjects from operation, research and development, branding and marketing, career advancement, as well as general management, in order to enhance their professional skill sets and understanding of our company and the industry.

We enter into employment contracts, confidentiality agreements and non-compete agreements with all of our employees. We have developed an evaluation system to assess the performance of our employees annually, which forms the basis for determining their compensation. During the Track Record Period, we made contributions to social insurance and housing provident funds in compliance with applicable PRC laws and regulations in all material respects. We believe we have maintained a positive relationship with our employees. We had not experienced any significant labor disputes during the Track Record Period and up to the Latest Practicable Date which have adversely affected or are likely to have adverse effects on our business operations.

INSURANCE

We maintain insurance policies that are required under PRC laws and regulations as well as based on our assessment of our operational needs and industry practice. In line with industry practice in China, we maintain property insurance policies for our brand stores and warehouses. Our Directors consider that our existing insurance coverage is generally in line with the industry practice in China. During the Track Record Period and up to the Latest Practicable Date, we had not received any material insurance claims against us. See “Risk Factors—Risks Relating to Our Business and Industry—Our insurance coverage may be insufficient to cover all of our potential losses.”

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PROPERTIES

As of the Latest Practicable Date, we did not own any real property. As of December 31, 2024, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this document any valuation report. Pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempted from compliance with the requirements of section 342(1)(b) 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, which requires a valuation report with respect to all of our interests in land or buildings.

Leased Properties

As of the Latest Practicable Date, we leased 14 properties with a GFA of 22,266 sq.m., mainly as our offices, warehouses and brand stores from Independent Third Parties. As of the Latest Practicable Date, the lessors of seven of the leased premises, which are mainly used as brand stores and office, had not provided copies of the real property title certificates to us. As advised by our PRC Legal Advisors, if the relevant lessor has no right to lease the leased property and a third party other than the parties to the relevant lease contracts have legal title to such leased property, such third party may claim that the relevant lease contracts are null and void or have no effect thereto, or request us to cease our use and move out of such leased property. However, considering that (i) as of the Latest Practicable Date, we had not received any notices requiring us to cease our use or move out of such leased property, (ii) there are abundant unoccupied properties available for lease at similar costs and we believe we would be able to relocate our facilities to a different site relatively easily if we are required by third parties, and (iii) in accordance with the relevant provisions of the PRC Civil Code, if we are unable to use or accrue proceeds from the leased property due to any claim by a third person, we may request reduction of rent or refuse to pay rent, our Directors are of the view that such incidents will not have a material adverse impact on our continuous operation, financial condition and results of operations.

As of the Latest Practicable Date, 13 out of our 14 leased properties used as our offices, warehouses and brand stores had not been registered and filed with relevant land and real estate administration bureaus in the PRC. As advised by our PRC Legal Advisors, failure to complete the registration and filing of lease agreements will not affect the validity of such lease agreements nor the lawful and effective use of leased properties pursuant to the lease agreements. However, the relevant authorities may require us to rectify such noncompliance within a prescribed period and we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each of such properties if we fail to rectify such non-compliance within the prescribed period. During the Track Record Period, we have not been subject to any administrative penalties imposed by the competent authorities for failing to complete the registration and filing of the lease agreements. Based on the above, our PRC Legal Advisors and we believe that the failure to register and file the leased properties will not have any material adverse effect on our operation and financial condition. See “Risk Factors—Risks Relating to Our Business and Industry—We may be subject to risks in relation to our leased properties.”

USER PRIVACY AND DATA SECURITY

In the ordinary course of business, we from time to time collect, store and use certain personal information, including phone numbers and addresses for our membership program and sales through e-commerce platforms.

There are various laws and regulations, such as the Cybersecurity Law of the PRC and the Personal Information Protection Law of the PRC, which govern the collection, use, retention, sharing and security of the personal data. See “Regulatory Overview—Regulations on Online Business and Data Compliance.” Given that legislation and law enforcement in the PRC on cybersecurity, data privacy and protection are still

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evolving, we closely monitor further regulatory developments and take appropriate measures in a timely manner. During the Track Record Period and as of the Latest Practicable Date, we had complied with applicable laws and regulations relating to cybersecurity, data privacy and protection in all material aspects.

To safeguard user privacy and data security, we have a data security and personal information protection working group for user privacy led by our CEO, with the IT department as core members, and supported by our legal department. Such working group is overseen by the Board. The working group is responsible for establishing overall network compliance strategies, implementing data security compliance requirements, supporting the daily business processes of our business departments and conducting data compliance assessments.

We have formulated and implemented a set of institutional policies, including Data Security Management Policy (《數據安全管理制度》), Personal Information Protection Management Policy (《個人信息保護管理制度》), Personal Information Protection Impact Assessment Policy (《個人信息保護影響評估制度》), Guidelines for Responding to Personal Information Subject Rights Requests (《個人信息主體權利請求響應指引》), Data Classification and Grading Management Policy (《數據分類分級管理制度》), Data Security Incident Emergency Response Plan (《數據安全事件應急預案》), Policy on Governance of Online Information Content Ecology and User Account Information Management (《網絡信息內容生態治理與用戶賬號信息管理制度》). These policies serve as a framework to govern and guide our employees’ actions in safeguarding data protection and security. Our data security and personal information protection working group supervise our data security activities and enforce these policies.

We have also employed a range of technical measures to strengthen the security of our information systems. This includes deploying firewalls, intrusion detection systems and intrusion prevention systems to protect servers from external attacks, using encryption protocols for data transmission to ensure the security of communication between clients and servers, and conducting regular vulnerability scans and penetration tests to identify and rectify potential security risks. In addition, we implemented a robust backup strategy, stringent identity authentication and role-based access control protocols to ensure data security. We anonymize and de-identify sensitive data, and monitor operations of sensitive data, ensuring strict adherence to regulatory standards.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We are subject to various social, health, safety and environmental laws and regulations and our daily operations are regularly inspected by local government authorities. We believe we have adequate policies ensuring compliance with all social, health, safety and environmental protection regulations. Particularly, we believe our continued growth rests on integrating social values into our business. We intend to create a lasting positive environmental, social and governance (“ESG”) impact on our customers, suppliers and the broader community whom our operation may impact. We acknowledge our responsibilities on environmental protection, social responsibilities and are aware of the climate-related issues that may have impact on our business. We are committed to complying with ESG reporting requirements upon Listing.

Our core management team is responsible for adopting and adjusting our overall ESG vision and principle and our administrative departments are collectively responsible for assessing and managing our ESG-related risks and monitoring the compliance of our operations with environment, health and safety laws and regulations. We strive to maintain active communication with various stakeholders, including employees, partner factories, suppliers, customers and regulators and continuously improve our ESG practices to address stakeholders’ ESG-related considerations. During the Track Record Period and up to the Latest Practicable Date, we were not exposed to any significant risks or issues related to ESG. Looking forward, we will dedicate more internal resources and management supervision to further enhance our ESG practices and strategies, strengthen our risk identification and management procedures, and ensure transparent and regular ESG reporting.

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Environment

We proactively monitor changes in laws, regulations and policies, continuously assess compliance risks and promptly adjust our practices to ensure alignment with evolving environmental focus areas. We promptly adjust to changes in laws, regulations and policies to ensure our compliance with environmental focus topics. We have an environmental management framework in place with a focus on reducing environmental impact, improving resource efficiency and reduction of overall carbon emissions. Considering the potential impact of our business on the climate and the environment, we take various measures in our business operations to minimize the impact of our operations on the environment, including the following:

- *Manufacturing process.* We reduce waste and save energy by stationing our staff at the partner factories to oversee the production processes to optimize material use, reduce defects and minimize rework. While we use ABS, a non-renewable and non-biodegradable material, in our products, we plan to increase the use of degradable, environmentally friendly raw materials for product production. Moreover, we primarily use recyclable and degradable packaging materials. In 2024, in an effort to promote environmentalism, we partnered with a food delivery platform and introduced specially designed limited edition of toy display box made from recycled plastic meal boxes under our Nook Wasteland Park series.
- *Partner factory management.* We work with our partner factories to minimize the environmental impact of the production process. We (i) require our partner factories to adhere to the requirements set out in the standards across various production stages such as injection, printing and packaging; and (ii) have staff stationed at the partner factories to oversee the entire production process in order to make sure that production process is in accordance with the relevant standards.
- *Energy conservation and green office.* We focus on energy and resource conservation in our daily operating activities. We have established an office administration policy designed to implement the low-carbon office concept, which requires the implementation of the office energy-saving and safety measures. For example, we require our employees to promptly turn off lights and air conditioners in unoccupied office areas.

The table below sets forth our resource use and emission-related indicators during the Track Record Period.

	Year ended December 31,		
	2022	2023	2024
Resource consumption			
Electricity (MWh)	296	329	398
Water (tons)	526	608	719
Emission			
Greenhouse gas emissions (tons of CO ₂ equivalent)			
— Scope 2 (indirect emissions)	159	177	214

Note: We do not engage in Scope 1 greenhouse gas emission because we do not carry out any production activities and have no direct emission from our business operations. We intend to initiate the assessment of our Scope 3 greenhouse gas emission after the Listing.

To minimize the environmental impact of our growth, we have implemented a series of environmental-friendly initiatives in our office area, including adopting a paperless office system, utilizing online working software to reduce the use of paper and enhance efficiency. Additionally, we provide internal training on carbon neutrality, and post posters in office spaces to raise awareness of our low-carbon initiatives. We are

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at a preliminary stage of studying the environmental impact of our operations and establishing ESG targets. We intend to implement achievable ESG targets upon Listing that align with our business expansion while minimizing environmental impact and risks.

Social Responsibilities and Corporate Governance

We are committed to promoting corporate social responsibility and sustainable development. Corporate social responsibility is viewed as part of our core corporate philosophy that will be crucial to our ability to create sustainable value for our stakeholders by embracing diversity and addressing public interests.

Consumer Protection

We place strong emphasis on consumer protection and product safety. Our consumer protection efforts primarily include that (i) we use comprehensible and accurate language on the packaging of our products to mitigate the risks of misrepresentation and misunderstanding; and (ii) we include clear warning labels and safety instructions on our packaging to inform consumers about appropriate age ranges and any potential hazards. In particular, we prioritize the safety and well-being of children by adhering to rigorous standards from product design and development to production, so as to ensure our products are safe and meet global safety regulations, including China’s toy safety standard GB6675-2014, the United States toy safety standard ASTM F963, and the European Union toy safety standard EN71. For product design and development, we take product quality and safety into account when designing the prototype and molds, ensuring that product safety is addressed across all our product offerings from the beginning. Moreover, we use safe materials and undergo comprehensive testing for potential hazards, such as choking risks, sharp edges, chemicals and durability to ensure our products meet the aforementioned toy safety standards. For manufacturing, we have formulated strict safety standards for our partner factory network, and we have staff stationed at the partner factories to oversee the production processes in order to make sure that our products are produced according to such standards.

Employee Caring Initiatives

We have formulated employee caring initiatives including employee welfare systems, workplace safety guidance, diversity policies and self-development opportunities which our human resource department is responsible for implementing and supervising. We set a series of internal guidelines regarding the remuneration and incentive mechanism. We promote comprehensive employee welfare systems to look after employees’ health and well-being, such as general health benefits, and holiday and birthday benefits.

We are committed to creating an equal and diverse workplace. We provide equal career opportunities for employees of different background, ages and genders. As of December 31, 2024, we had 223 female employees, accounting for 55.8% of our total employees. We design and offer various training programs for employees of different departments and positions, covering subjects from operations, research and development, branding and marketing, career advancement, as well as general management, in order to enhance their professional skill sets and understanding of our company and the industry. See “—Employees.” During the Track Record Period and up to the Latest Practicable Date, we had not experienced any major accidents involving personal injury or property damage.

Charitable Efforts

We are committed to charity and have actively contributed to various causes since our inception. As our proprietary IP Nook, which is designed as an introverted and sensitive boy with social anxiety, resonates with introverted individuals or people with ASD (autistic spectrum disorders), we partner with a charitable organization and made 500 limited edition Nook T-shirts printed with drawings by ASD children. We also displayed such drawings at 2024 Pop Toy Show in Shanghai to further raise awareness of ASD. In addition, on January 28 2020, we donated RMB1.0 million to frontline healthcare professionals in Wuhan.

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We also made regular donations of toys to various charitable organizations, such as Beijing Youth Development Foundation (北京青少年發展基金會) and China Environmental Protection Foundation (中華環境保護基金會).

Business Integrity

We have implemented a series of strict internal rules regarding business integrity to prevent corruption, bribery, extortion, fraud and money laundering. In addition, we make known our internal integrity policies to our suppliers and partner factories. We require our suppliers and partner factories to sign integrity agreements in which they make written commitment to comply with our anti-corruption and anti-bribery requirements. We also carry out anti-corruption training activities for employees to strengthen employees’ awareness. We encourage our employees to report on non-compliance and have formulated a whistleblower policy. Our legal team and internal control team are responsible for handling the reports of fraud or bribery incidents. We maintain strict confidentiality of all whistleblowers.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any instances of corruption and malpractice that had a material adverse effect on our business or were likely to have a material adverse effect on our business.

RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to various risks during our operations. We have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations.

Our policies and procedures relate to managing our procurement and monitoring our sales performance and product quality. To monitor the ongoing implementation of our risk management policies and corporate governance measures after the [REDACTED], we have adopted or will continue to 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, Supervisors and Senior Management;”
- adopt various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure;
- provide anti-corruption and anti-bribery compliance training periodically to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations, and include relevant policies against non-compliance in employee handbooks;
- organize training session for our Directors, Supervisors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong;
- 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.

LEGAL PROCEEDINGS AND COMPLIANCE

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business involving employment, copyrights, contract disputes and other matters. See “Risk Factors—Risks Relating to Our Business and Industry—We may from time to time become a party to

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litigation, other legal and contractual disputes, claims and administrative proceedings.” During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any litigation, arbitration or administrative proceedings which could have a material adverse impact on our business, financial condition or results of operations. As of the Latest Practicable Date, we were not aware of any pending or threatened litigation, arbitration or administrative proceedings against us which may have a material and adverse impact on our business, financial condition or results of operations. During the Track Record Period and as of the Latest Practicable Date, we had not had any non-compliance incidents which our Directors believe would, individually or in the aggregate, have a material operational or financial impact on our company as a whole.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board of Directors comprises nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors. The powers and duties of our Board include determining our business and investment plans, preparing our annual financial budgets and final reports, and exercising other powers, functions and duties as conferred by the Articles. The table below sets out the key information of our Directors:

<u>Name</u>	<u>Age</u>	<u>Date of joining our Group</u>	<u>Date of appointment as Director</u>	<u>Existing position(s) in our Group</u>	<u>Roles and responsibilities</u>	<u>Relationship with other Directors, Supervisors and senior management</u>
<i>Executive Directors</i>						
Mr. Chen Wei (陳威)	46	July 9, 2012	July 9, 2012	Executive Director, chairman of our Board, chief executive officer and general manager	Responsible for the strategic planning, business direction and daily operations and management of our Group	Party acting in concert with Mr. Huang and Ms. Bai
Mr. Huang Jin (黃今)	49	July 9, 2012	January 24, 2018	Executive Director and president	Responsible for the business direction, daily operations and management of our Group	Party acting in concert with Mr. Chen and Ms. Bai Spouse of Ms. Zhang Yingnan
Ms. Bai Jie (柏潔)	51	July 9, 2012	July 19, 2017	Executive Director and vice president	Responsible for the daily operations and management of our Group	Party acting in concert with Mr. Chen and Mr. Huang
<i>Non-executive Directors</i>						
Ms. Wang Xin (王欣)	41	July 25, 2019	July 25, 2019	Non-executive Director	Responsible for providing guidance for the strategy and business development of our Group	None
Mr. Shi Zhan (施展)	42	June 15, 2022	June 15, 2022	Non-executive Director	Responsible for providing guidance for the strategy and business development of our Group	None
Ms. Chen Xi (陳曦)	43	May 16, 2025	May 16, 2025	Non-executive Director	Responsible for providing guidance for the strategy and business development of our Group	None

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Date of appointment as Director	Existing position(s) in our Group	Roles and responsibilities	Relationship with other Directors, Supervisors and senior management
Independent non-executive Directors						
Mr. Zhang Liang (張亮)	44	June 15, 2022	June 15, 2022	Independent non-executive Director	Responsible for providing independent advice to our Board	None
Ms. Zhang Tao (章濤)	46	June 15, 2022	June 15, 2022	Independent non-executive Director	Responsible for providing independent advice to our Board	None
Ms. Jing Xiaoyan (景小燕)	41	May 16, 2025	May 16, 2025	Independent non-executive Director	Responsible for providing independent advice to our Board	None

Executive Directors

Mr. Chen Wei (陳威), aged 46, is an executive Director, our chairman of the Board, chief executive officer and general manager. Mr. Chen has been serving as a Director, our chief executive officer and general manager since our establishment in July 2012. He is primarily responsible for the strategic planning, business direction and daily operations and management of our Group.

Mr. Chen has nearly 25 years of experience in business management and is an industry veteran in IP toy industry. Early in his career, he engaged in the long-term distribution of globally recognized toy brands such as Bandai and McFarlane, gaining substantial understanding of market dynamics and consumer needs. From December 2000 to September 2019, he served as the general manager of the Beijing Chuangyi Wuxian Commerce & Trade Center (北京創異無限商貿中心).

Mr. Chen completed an entrepreneur training program at PBC School of Finance, Tsinghua University (清華大學五道口金融學院) in October 2022.

Mr. Huang Jin (黃今), aged 49, is an executive Director and the president of the Group. Mr. Huang was appointed as our executive Director in January 2018. Mr. Huang has been serving as the president of the Group since our establishment in July 2012. He is primarily responsible for the business direction, daily operations and management of our Group.

Mr. Huang has decades of experience in China’s gaming and toy sectors. He co-developed the immensely successful board game *Legends of the Three Kingdoms* (三國殺), significantly boosting the popularity of games based on the Three Kingdoms culture IP, especially among young people. He co-founded Beijing Youka Business Consulting Co., Ltd (北京遊卡商務諮詢有限公司), where he worked at between May 2009 and May 2015, during which he served as the general manager.

Ms. Bai Jie (柏潔), aged 51, is an executive Director and the vice president of the Group. Ms. Bai joined our Company as the vice president since its establishment and was appointed as our executive Director in July 2017. She is primarily responsible for the daily operations and management of our Group.

Ms. Bai has over 20 years of experience in marketing. From June 2003 to February 2008, she served as a marketing manager at Beijing Super Channel Network Limited (北京訊能網絡有限公司). From December

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

2008 to May 2012, she served as a marketing director at Beijing KongZhong Xinshi Information Technology Co., Ltd. (北京空中信使信息技術有限公司).

Ms. Bai obtained a bachelor’s degree in international trade from Northwest University (西北大學) in the PRC in July 1997 and a master’s degree in political economics from Northwest University in July 2000.

Non-executive Directors

Ms. Wang Xin (王欣), aged 41, was appointed as our non-executive Director in July 2019. She is primarily responsible for providing guidance for the strategy and business development of our Group.

Ms. Wang has around 12 years of experience in equity investment. She has worked at Qiming Venture Partners* (啟明創投), a venture capital firm, since 2012. Ms. Wang has served as a non-executive director at MedSci Healthcare Holdings Limited (a company listed on the Main Board of the Stock Exchange (stock code: 2415) since September 2024.

Ms. Wang obtained a bachelor’s degree in broadcasting and television journalism from Fudan University (復旦大學) in July 2006 and a master’s degree in business administration from China Europe International Business School (中歐國際工商學院) in February 2012.

Mr. Shi Zhan (施展), aged 42, was appointed as our non-executive Director in June 2022. He is primarily responsible for providing guidance for the strategy and business development of our Group.

Mr. Shi has over 15 years of financial and managerial experience within the investment industry. From July 2008 to July 2010, he worked as an analyst at UBS AG, a company listed on the New York Stock Exchange (ticker symbol: UBS). From August 2010 to April 2012, he worked as an analyst at Baring Private Equity Asia Ltd. From May 2012 to October 2015, he worked at Carlyle Management Hong Kong Ltd., where he held positions including an associate of the Asia growth group. From September 2017 to September 2019, he worked at Huatai Financial Holdings (Hong Kong) Limited, where he held positions including a director in the investment banking department. Since January 2020, he worked at CICC Capital Management Co., Ltd. (中金資本運營有限公司) and currently serves as an executive director.

Mr. Shi obtained a bachelor’s degree in economics and finance from the University of Hong Kong in December 2006 and a master’s degree in arts from New York University in the United States in January 2008. Mr. Shi obtained his fund qualification certificate (基金從業資格) in April 2023.

Ms. Chen Xi (陳曦), aged 43, was appointed as our non-executive Director in May 2025. She is primarily responsible for providing guidance for the strategy and business development of our Group.

Ms. Chen has over 13 years of managerial experience in the media industry. From October 2011 to November 2015, she served as an executive director at Beijing Yingyitong Film and Television Culture Media Co., Ltd. (北京影藝通影視文化傳媒有限公司). From December 2021 to January 2024, she served as an executive director of China Ruyi Holdings Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange (stock code: 136). Since January 2024, she has served as the chairman of board at Wanda Film Holding Co., Ltd. (萬達電影股份有限公司), a joint stock company incorporated in the PRC whose shares are listed on the Shenzhen Stock Exchange (stock code: 002739).

Ms. Chen obtained a bachelor’s degree in performing arts (bachelor of arts) from the Central Academy of Drama (中央戲劇學院) in the PRC in July 2004.

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Independent non-executive Directors

Mr. Zhang Liang (張亮), aged 44, was appointed as our independent non-executive Director in June 2022. He is primarily responsible for providing independent advice to our Board.

Mr. Zhang has nearly 20 years of working and managerial experience across various sectors and industries. He worked as an assistant managing editor at the Global Entrepreneur Magazine (《環球企業家》雜誌社). From October 2009 to March 2014, he served as the investment director of the Sinovation Ventures (Beijing) Enterprise Management Limited (創新工場(北京)企業管理股份有限公司). Mr. Zhang co-founded Zhihu Inc. (a company listed on the New York Stock Exchange (ticker symbol: ZH)) and the Stock Exchange (stock code: 02390)) in August 2011. Mr. Zhang founded Beijing Smile Technology Co., Ltd. (北京微笑科技有限公司) in April 2014.

Mr. Zhang obtained a bachelor’s degree in economics from Central University of Finance and Economics (中央財經大學) in the PRC in June 2003.

Ms. Zhang Tao (章濤), aged 46, was appointed as our independent non-executive Director in June 2022. She is primarily responsible for providing independent advice to our Board.

Ms. Zhang has nearly 20 years of auditing and financial experience and over five years of experience in corporate compliance and management. She worked at Deloitte Touche Tohmatsu Certified Public Accountants LLP Beijing Branch (德勤華永會計師事務所(特殊普通合夥)北京分所) from August 2003 to April 2018, where she held positions including a partner. She then served as the chairperson of the supervisory board and the general manager of the internal audit and control department at Laopu Gold Co., Ltd. (老鋪黃金股份有限公司) (a company listed on the Main Board of the Stock Exchange (stock code: 6181)) from April 2018 to August 2021. She has served as the vice president at Zhongshang Huimin Technology Group Co., Ltd. (中商惠民科技集團有限公司) since August 2021, and a director since January 2024. Ms. Zhang has also served as an independent non-executive director of China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司) (a company listed on the Main Board of the Stock Exchange (stock code: 2002)) since August 2023.

Ms. Zhang obtained a bachelor’s degree in wealth management from Beijing Institute of Machinery (北京機械工業學院) (currently known as Beijing Information Science & Technology University (北京信息科技大學)) in the PRC in July 1999 and a master’s degree in accounting from Capital University of Economics and Business (首都經濟貿易大學) in the PRC in July 2003. She was admitted as a member of the Chinese Institute of Certified Public Accountants in October 2006.

Ms. Jing Xiaoyan (景小燕), aged 41, was appointed as our independent non-executive Director in May 2025. She is primarily responsible for providing independent advice to our Board.

Ms. Jing has over 15 years of experience of management. From May 2010 to June 2017, she provided investment services to several asset management companies, including Scitech Group Company Ltd (賽特集團有限公司). She joined Hello Group Inc, a company listed on Nasdaq (ticker symbol: MOMO), in October 2017 and currently serves as a financing and treasury director.

Ms. Jing obtained a bachelor’s degree in science from the University of Warwick in the United Kingdom in July 2008 and a master’s degree in philosophy from the University of Cambridge in the United Kingdom in November 2009. Ms. Jing obtained her fund qualification certificate (基金從業資格) in October 2017.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

General Confirmations

Save as disclosed above and in this document, each of our Directors has confirmed that he/she has no other relationship with any other Directors, senior management, substantial shareholders or Single Largest Group of Shareholders of our Company and none of our Directors has held any other directorships in listed companies during the three years immediately preceding the date of this document.

Ms. Chen Xi was a director of Harbin Xinhai Culture Communication Co., Ltd. (哈爾濱鑫海文化傳播有限公司), a supervisor of Beijing Star Power Digital Technology Co., Ltd. (北京明星動力數碼科技有限公司) and a supervisor of Beijing Chuange Technology Co., Ltd. (北京傳歌科技有限公司), the business licenses of which were revoked because the relevant company’s personnel did not complete the annual inspection in a timely manner. As confirmed by Ms. Chen, the revocation of the business licenses of these companies was not caused by her, and she did not bear any personal responsibility and was not subject to any claim by any third party for such revocation or for serving as a director or supervisor of these companies.

Save as disclosed above, each of our Directors has confirmed that there are no other matters relating to his/her appointment as a Director that need to be brought to the attention of our Shareholders and there is no other information in relation to his/her appointment which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Each of our Directors has confirmed that he/she obtained the legal advice on May 18, 2025 with regard to the requirements under the Listing Rules that are applicable to him/her as a director of a listed issuer and the possible consequences of making a false declaration or giving false information to the Stock Exchange as set out in Rule 3.09D of the Listing Rules and he/she understood his/her obligations as a director of a listed issuer.

Each of our independent non-executive Directors has confirmed his/her independence with regards to each of the factors as set out in Rule 3.13(1) to (8) of the Listing Rules and that there are no other factors that may affect his/her independence at the time of his/her appointment.

SUPERVISORS

As of the Latest Practicable Date, our Supervisory Committee consists of three Supervisors. Upon Listing, the Supervisory Committee will be dissolved and our Company will no longer have any Supervisor. The table below sets out the key information of our Supervisors:

<u>Name</u>	<u>Age</u>	<u>Date of joining our Group</u>	<u>Date of appointment as Supervisor</u>	<u>Existing position(s) in our Group</u>	<u>Roles and responsibilities</u>	<u>Relationship with other Directors, Supervisors and senior management</u>
Mr. Cai Ming (蔡明)	43	August 18, 2014	April 1, 2019	Supervisor	Responsible for supervising and providing independent advice to our Board	None
Mr. Li Shichao (李仕超)	34	January 29, 2018	May 16, 2025	Supervisor	Responsible for supervising and providing independent advice to our Board	None
Ms. Yu Xi (余曦)	43	August 27, 2013	December 14, 2020	Supervisor	Responsible for supervising and providing independent advice to our Board	None

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Cai Ming (蔡明), aged 43, was appointed as our Supervisor in April 2019. He is primarily responsible for supervising and providing independent advice to our Board.

Mr. Cai has over 20 years of experience in sales and business development. He worked at Songri Digital Technology (Shenzhen) Co., Ltd. (松日數碼科技 (深圳) 有限公司) from January 2005 to November 2005. From March 2006 to June 2007, he worked at Amber Digital (Shenzhen) Co., Ltd. (琥珀數碼 (深圳) 有限公司). Later, he worked at Shenzhen Yoke Electronics Co., Ltd. (深圳優可視電子有限公司) from December 2007 to February 2009. From September 2010 to May 2013, he worked at Beijing Youka Business Consulting Co., Ltd (北京遊卡商務諮詢有限公司). He joined our Company in August 2014 and has successively served as a sales director and the general manager of the international business department.

Mr. Cai obtained a bachelor’s degree in management from Shanghai University of Finance and Economics (上海財經大學) in the PRC in July 2004.

Mr. Li Shichao (李仕超), aged 34, was appointed as our Supervisor in May 2025. He is primarily responsible for supervising and providing independent advice to our Board.

Mr. Li has over 10 years of experience in product management. From June 2014 to January 2016 and from April 2016 to January 2018, he worked at Beijing Dream City Culture Co., Ltd. (北京夢之城文化有限公司). He joined our Company in January 2018 and currently serves as the director of our supply chain coordination department.

Mr. Li obtained a bachelor’s degree in accounting from Zhengzhou Shengda University of Economics, Business & Management (鄭州升達經貿管理學院) in the PRC in July 2014.

Ms. Yu Xi (余曦), aged 43, was appointed as our employee representative Supervisor in December 2020. She is primarily responsible for supervising and providing independent advice to our Board.

Ms. Yu joined our Company in August 2013 and currently served as the manager of overseas business. Ms. Yu graduated from University of Surrey in the United Kingdom, majoring in economics and finance.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The table below sets out the key information of our senior management:

Name	Age	Date of joining our Group	Date of appointment as senior management	Existing position(s) in our Group	Roles and responsibilities	Relationship with other Directors, Supervisors and senior management
Mr. Chen Wei (陳威)	46	July 9, 2012	July 9, 2012	Executive Director, chairman of our Board, chief executive officer and general manager	Responsible for the strategic planning, business direction and daily operations and management of our Group	Party acting in concert with Mr. Huang and Ms. Bai
Mr. Huang Jin (黃今)	49	July 9, 2012	January 24, 2018	Executive Director and president	Responsible for the business direction, daily operations and management of our Group	Party acting in concert with Mr. Chen and Ms. Bai Spouse of Ms. Zhang Yingnan
Ms. Bai Jie (柏潔)	51	July 9, 2012	July 19, 2017	Executive Director and vice president	Responsible for the daily operations and management of our Group	Party acting in concert with Mr. Chen and Mr. Huang
Ms. Zhang Yingnan (張穎楠)	50	February 13, 2023	February 13, 2023	Chief marketing officer	Responsible for the marketing and overall sales management of our Group	Spouse of Mr. Huang
Ms. Zhang Xiaofang (張瀟方)	42	August 1, 2019	August 1, 2019	Chief financial officer	Responsible for the finance matters of our Group	None

Mr. Chen Wei (陳威), aged 46, our executive Director, chairman of our Board, chief executive officer and general manager. For his biography, see “—Board of Directors—Executive Directors—Mr. Chen Wei” in this section.

Mr. Huang Jin (黃今), aged 49, our executive Director and president of the Group. For his biography, see “—Board of Directors—Executive Directors—Mr. Huang Jin” in this section.

Ms. Bai Jie (柏潔), aged 51, our executive Director and vice president of the Group. For her biography, see “—Board of Directors—Executive Directors—Ms. Bai Jie” in this section.

Ms. Zhang Yingnan (張穎楠), aged 50, was appointed as the chief marketing officer of the Group in February 2023. She is primarily responsible for the marketing and overall sales management of our Group.

Ms. Zhang has more than 20 years of branding, strategic partnerships and marketing experience. From September 2000 to January 2008, she worked at Beijing Super Channel Network Limited (北京訊能網絡有限公司), where she held positions including the vice president. From April 2009 to June 2018, she served as the executive vice president of Beijing KongZhong Xinshi Information Technology Co., Ltd. (北京空中信使信息技術有限公司), where she was responsible for overseeing large-scale brand marketing and spearheading market promotions for the company’s gaming matrix. She joined our Company in February 2023 and has served as the chief marketing officer since then.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Zhang Xiaofang (張瀟方), aged 42, was appointed as the chief financial officer of the Group in August 2019. She is primarily responsible for the finance matters of our Group.

Ms. Zhang has a career in finance and business for nearly 20 years. From January 2008 to March 2014, she worked at Deloitte Touche Tohmatsu Certified Public Accountants LLP Beijing Branch (德勤華永會計師事務所 (特殊普通合夥) 北京分所), where she held positions including an assistant manager. From March 2014 to July 2019, she worked at Happy Elements Technology (Beijing) Limited (樂元素科技 (北京) 股份有限公司), where she held positions including the financial director. She joined our Company in August 2019 and since then has served as the chief financial officer of the Group.

Ms. Zhang obtained a bachelor’s degree in national economy management from Central University of Finance and Economics (中央財經大學) in the PRC in June 2005 and a master’s science degree in applied economics from the City University of Hong Kong (香港城市大學) in Hong Kong in November 2006. She is a member of the American Institute of Certified Public Accountants.

JOINT COMPANY SECRETARIES

Ms. Yu Sichen (于思晨) was appointed as our company secretary in May 2025.

Ms. Yu has extensive experience in corporate investment and financing. From October 2017 to May 2019, she served as the securities affairs representative at E-Rental Group (宜租集團). From May 2019 to November 2020, she served as the securities affairs representative at China Bright Culture Group, a company formerly listed on the Main Board of the Stock Exchange and delisted in February 2025. From November 2020 to October 2022, she served as the person in charge of securities affairs at Youzan Technology Limited, a company listed on GEM of the Stock Exchange (stock code: 8083). From October 2022 to November 2024, she successively served as the IR manager at Bairong Inc., a company listed on the Main Board of the Stock Exchange (stock code: 6608), and Flowing Cloud Technology Ltd, a company listed on the Main Board of the Stock Exchange (stock code: 6610). She joined our Company in November 2024 and since then has served as the head of investment and financing department.

Ms. Yu obtained a bachelor’s degree in physics from Capital Normal University (首都師範大學) in the PRC in June 2015 and a master’s degree in applied science from National University of Ireland, Galway in Ireland in November 2016.

Ms. Lau Yee Wa (劉綺華) was appointed as our company secretary in May 2025.

Ms. Lau is a director of Corporate Services of Tricor Services Limited, a member of Vistra Group and a global professional services provider specializing in integrated business, corporate and investor services. Ms. Lau has over 20 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Lau is currently the company secretary or the joint company secretary of a few listed companies on the Hong Kong Stock Exchange. Ms. Lau is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom. Ms. Lau obtained her bachelor’s degree in administrative management from University of South Australia in April 2003.

BOARD COMMITTEES

Our Board has established the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Strategy 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Audit Committee

We have established the Audit Committee pursuant to Rule 3.21 of the Listing Rules with written terms of reference in compliance with paragraph D.3 of Part 2 of the Corporate Governance Code, as set out in Appendix C1 to the Listing Rules (the “CG Code”). The Audit Committee consists of Ms. Jing Xiaoyan, Mr. Zhang Liang and Ms. Zhang Tao. Ms. Jing Xiaoyan is the chairperson of the Audit Committee and Ms. Zhang Tao has the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

The primary duties of the Audit Committee are (i) reviewing and monitoring the external auditors’ audit process; (ii) giving guidance to our internal audit work; (iii) overseeing the effectiveness of our financial reporting system, risk management and internal control systems; (iv) reviewing and providing advice and comments on our financial reports; (v) performing our corporate governance functions; (vi) coordinating among our management team, internal audit department and related departments and external auditors; and (vii) performing other duties and responsibilities as assigned by our Board and/or required by applicable laws and regulations (including the Listing Rules) from time to time.

Remuneration and Appraisal Committee

We have established the Remuneration and Appraisal Committee pursuant to Rule 3.25 of the Listing Rules with written terms of reference in compliance with paragraph E.1 of Part 2 of the CG Code. The Remuneration and Appraisal Committee consists of Mr. Zhang Liang, Ms. Jing Xiaoyan and Mr. Huang Jin. Mr. Zhang Liang is the chairperson of the Remuneration and Appraisal Committee.

The primary duties of the Remuneration and Appraisal Committee are (i) making recommendations to our Board on our policy and structure for remuneration of our Directors, Supervisors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) reviewing and approving the management team’s remuneration proposals with reference to corporate goals and objectives; (iii) making recommendations to our Board on the remuneration of executive Directors and senior management (which includes non-monetary benefit, pension and compensation (including compensation for loss or termination of office or appointment)); (iv) making recommendations to our Board on the remuneration of non-executive Directors and Supervisors; (v) considering the salaries paid by, and the time commitment, responsibilities and employment terms offered by, comparable companies for other positions within the Group; (vi) reviewing and approving the 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 his/her associates is involved in deciding that Director’s own remuneration; (ix) evaluating the performance of executive Directors and including in the annual work summary; (x) reviewing the terms of service agreements or appointment letters for Directors and Supervisors; (xi) reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules (if necessary); and (xii) performing other duties and responsibilities as assigned by our Board and/or required by applicable laws and regulations (including the Listing Rules) from time to time.

Nomination Committee

We have established the Nomination Committee pursuant to Rule 3.27A of the Listing Rules with written terms of reference in compliance with paragraph B.3 of Part 2 of the CG Code. The Nomination Committee consists of Mr. Chen Wei, Mr. Zhang Liang and Ms. Jing Xiaoyan. Mr. Chen Wei is the chairperson of the Nomination Committee.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The primary duties of the Nomination Committee are (i) reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of our Board at least annually, assisting the board in maintaining a board skills matrix, and making recommendations on any proposed changes to our Board to complement our corporate strategy; (ii) identifying individuals suitably qualified to become Directors and selecting or making recommendations to our Board on the selection of individuals nominated for directorships; (iii) assessing the independence of independent non-executive Directors; (iv) making recommendations to our Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive; (v) supporting the Group’s regular evaluation of the Board’s performance; (vi) reviewing our board diversity policy, any measurable objectives for implementing such board diversity policy as may be adopted by our Board from time to time, the progress on achieving the objectives and disclose the board diversity policy or its summary in the corporate governance report; (vii) where the Board proposes a resolution at a general meeting to appoint a candidate as an independent non-executive director of the Company, ensuring the circular to shareholders and/or explanatory statement accompanying the notice of the general meeting will contain the details in respect of the decision-making process and reasons for the appointment as required under the Listing Rules; (viii) reviewing the implementation and effectiveness of our mechanism(s) to ensure independent views and opinions are available to our Board; (ix) reporting to our Board on decisions or recommendations, except where legal or regulatory restrictions prevent such reporting; and (x) performing other duties and responsibilities as assigned by our Board and/or required by applicable laws and regulations (including the Listing Rules) from time to time.

Strategy Committee

We have established the Strategy Committee, which consists of Mr. Zhang Liang, Ms. Zhang Tao and Mr. Chen Wei. Mr. Zhang Liang is the chairperson of the Strategy Committee. The primary duties of the Strategy Committee are to review and advise on the long-term strategy and major development and financing plans of our Group.

BOARD DIVERSITY POLICY

Our Board [has] adopted a board diversity policy (“Board Diversity Policy”), which sets out the approach to achieve diversity on our Board. Our Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in supporting the attainment of our Company’s strategic objectives and sustainable development. Our Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to talent, skills, gender, age, cultural and educational background, ethnicity, professional experience, independence, knowledge and length of service. We will select potential Board candidates based on merit and his/her potential contribution to our Board while taking into consideration our own business model and specific needs from time to time. All Board appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard to the benefits of diversity on our Board.

Our Board has a balanced mix of knowledge, skills and experience, including but without limitation to art, auditing, consulting, commercial operation management, corporate financial management, investment and product management, and sales and marketing. Members of our Board have obtained degrees in various majors including art, economics, and business administration. We have three independent non-executive Directors from different backgrounds, including internet, economics, investment, and audit industries.

With regards to gender diversity on the Board, we recognize the particular importance of gender diversity. Our Board currently comprises five female Directors and four male Directors and expects to continue to maintain an appropriate gender mix in the Board upon Listing. We have taken and will continue to take steps to promote and enhance gender diversity at all levels of our Company, including but without limitation at our Board and senior management levels. It is our objective to maintain an appropriate balance of gender diversity with reference to the expectations of stakeholders and international and local recommended best practices.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Nomination Committee is responsible for ensuring the diversity of our Board members. After Listing, our Nomination Committee will review our Board Diversity Policy and its implementation from time to time to monitor its continued effectiveness and we will disclose the implementation of our Board Diversity Policy, including any measurable objectives set for implementing the Board Diversity Policy and the progress on achieving these objectives, in our corporate governance report on an annual basis.

CORPORATE GOVERNANCE

Our Company aims to achieve high standards of corporate governance which are crucial to the development and safeguard the interests of our Shareholders. To accomplish this, our Company expects to comply with the CG Code and the associated Listing Rules after the Listing save for the deviation as mentioned below. Any deviation from the code provisions shall be carefully considered, and the reasons for any deviation and explanation of how good corporate governance was achieved by means other than strict compliance with the code provisions shall be given in the interim report and the annual report in respect of relevant period.

According to code provision C.2.1 of Part 2 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The roles of chairman of the Board and chief executive officer are currently performed by Mr. Chen. In view of Mr. Chen’s substantial contribution to our Group since our establishment and his extensive experience, our Board believes that it is in the best interest of our Group to have Mr. Chen taking up both roles for effective management and operations. Therefore, our Directors consider that the deviation from such code provision is appropriate. Notwithstanding such deviation, our Directors are of the view that our Board is able to work efficiently and perform its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions will be made in consultation with members of our Board and the relevant Board committees, and there are three independent non-executive Directors on our Board offering independent perspective, our Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within our Board. Our Board shall nevertheless review the structure and composition of our Board and senior management from time to time in light of prevailing circumstances to maintain a high standard of corporate governance practices of our Company.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Directors, Supervisors and members of our senior management receive compensation from our Group in the form of fees, salaries and other benefits and contribution to pension scheme.

The aggregate remuneration (including salaries, allowances, benefits in kind, discretionary bonuses, retirement scheme contributions and share-based payments) paid or payable to our Directors and Supervisors for the three years ended December 31, 2024 was approximately RMB11.3 million, RMB5.2 million and RMB5.1 million, respectively. Save as disclosed above, no amounts have been paid or are payable by any member of our Group to our Directors or Supervisors for the three years ended December 31, 2024.

The aggregate amount of salaries, allowances, benefits in kind, discretionary bonuses, retirement scheme contributions and share-based payments paid or payable to our five highest paid individuals in respect of the three years ended December 31, 2024 was approximately RMB6.0 million, RMB2.1 million and RMB2.6 million, respectively.

No remuneration was paid by us to our Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the three years ended December 31, 2024. Further, none of our Directors or Supervisors had waived or agreed to waive any remuneration during the same periods.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Under the arrangement currently in force, the aggregate remuneration (including salaries, allowances, benefits in kind, discretionary bonuses, retirement scheme contributions and share-based payments) of our Directors and Supervisors for the year ending December 31, 2025 is estimated to be no more than approximately RMB5.4 million.

Our Board will review and determine the remuneration and compensation packages of our Directors, Supervisors and senior management and will, following the Listing, receive recommendation from the remuneration and appraisal committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

EMPLOYEE INCENTIVE SCHEMES

For further details of our employees’ incentive schemes, see “Appendix VI—Statutory and General Information—Employee Incentive Schemes” to this document.

COMPETITION

Each of our Directors confirms that, as of the Latest Practicable Date, he/she did not have any interest in any business which competes, or is likely to compete, directly or indirectly, with our business, and requires disclosure under Rule 8.10 of the Listing Rules.

COMPLIANCE ADVISOR

We have appointed Somerley Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance advisor will advise our Company in the following circumstances:

- before the publication of any regulatory announcement, circular and financial report;
- where a transaction, which might be notifiable or connected transaction under the Listing Rules, is contemplated including shares issues, sales or transfers of treasury shares and share repurchases;
- where our Company proposes to use the [REDACTED] from the [REDACTED] in a manner different from that detailed in this document or where our business activities, developments or results deviate from any forecast, estimate or other information in this document; and
- where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or [REDACTED] volume of our Shares under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the [REDACTED] and end on the date on which our Company distribute our annual report in respect of our financial results for the first full financial year commencing after the [REDACTED].

RELATIONSHIP WITH OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, (i) the Concert Party Group, consisting of Mr. Chen, Mr. Huang and Ms. Bai, were collectively interested in approximately 36.81% of the Shares, (ii) Ms. Zeng, the spouse of Mr. Chen, is interested in approximately 0.25% of the Shares by virtue of her role as the general partner of Tianjin Tangdi Zhihua. Accordingly, the Concert Party Group, Ms. Zeng and Tianjin Tangdi Zhihua constitute our Single Largest Group of Shareholders. See “History, Development and Corporate Structure—Concert Party Arrangement and Our Single Largest Group of Shareholders” for further details.

Immediately following the completion the [REDACTED], the Single Largest Group of Shareholders will in aggregate hold approximately [REDACTED]% of the Shares (assuming the [REDACTED] is not exercised). Therefore, upon Listing, they will remain as our Single Largest Group of Shareholders and our Company will not have any controlling shareholders as defined under the Listing Rules.

COMPETITION

As of the Latest Practicable Date, each of our Single Largest Group of Shareholders had confirmed that none of them and their respective close associates had any interest in any business, other than our business, which competes or is likely to compete, either directly or indirectly, with our Group’s business which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR SINGLE LARGEST GROUP OF SHAREHOLDERS AND THEIR RESPECTIVE CLOSE ASSOCIATES

We believe that we are capable of carrying out our business independently from our Single Largest Group of Shareholders and their respective close associates (other than the Group) after the Listing for the following reasons:

Management Independence

Our Board comprises three executive Directors, three non-executive Directors and three independent non-executive Directors. Mr. Chen is an executive Director, the chairman of our Board, our chief executive officer and general manager, responsible for the strategic planning, business direction, daily operations and management of our Group. Mr. Huang is an executive Director and the president of our Group, responsible for the business direction, daily operations and management of our Group. Ms. Bai is an executive Director and the vice president of our Group, responsible for the daily operations and management of our Group. With the support of our experienced management team, Mr. Chen, Mr. Huang and Ms. Bai are expected to continuously devote a sufficient portion of their time to the day-to-day operations of our Group upon Listing.

Each of our Directors is aware of his/her fiduciary duties as a Director, which require, among other things, that he/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 interests. In the event that there is an actual or potential conflict of interest arising out of any transaction to be entered into between our Group and any of the Directors or their respective close 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 comprises nine Directors, including three independent non-executive Directors, which represent one-third of the members of our Board. Our independent non-executive Directors have extensive experience in corporate management and governance, and they are appointed to ensure that our Board will only make decisions after due consideration of independent and impartial opinions. Certain matters of our Company must always be referred to the independent non-executive Directors for review.

RELATIONSHIP WITH OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

We have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Single Largest Group of Shareholders that would support our independent management. For details, see “Corporate Governance Measures” in this section.

Based on the reasons above, our Directors are of the view that our Group is capable of managing our business independently from our Single Largest Group of Shareholders and their respective close associates and their respective close associates after the Listing.

Operational Independence

We have full rights to make all decisions on, and carry out, our own business operations independently from our Single Largest Group of Shareholders and their respective close associates and will continue to do so after the Listing. Our Group is able to operate without reliance on our Single Largest Group of Shareholders and their respective close associates.

Access to suppliers and business partners

We have independent access to our suppliers as well as our business partners. Our suppliers and business partners bases are diversified and unrelated to our Single Largest Group of Shareholders and their respective close associates.

Operational facilities and administration

We have full-time management team and staff to carry out our own administration and operation independently from our Single Largest Group of Shareholders and their respective close associates. All key administrative functions (including administration, finance, internal audit, human resources, legal and compliance and company secretarial functions) have been and will be carried out by our own without reliance or the support of our Single Largest Group of Shareholders and their respective close associates.

Employees

As of the Latest Practicable Date, save as disclosed in this document, all of our full-time employees were independent from our Single Largest Group of Shareholders and their respective close associates and were primarily recruited through both internal referrals and external sources such as campus recruitment, recruitment websites and third-party recruiters.

Based on the reasons above, our Directors are of the view that we have full rights to make all decisions on, and to carry out, our own business operations independently from our Single Largest Group of Shareholders and their respective close associates and will continue to do so after the Listing.

Financial Independence

We have independent internal control and accounting systems. We also have an independent finance department responsible for discharging the financial management, accounting, reporting, funding and treasury function. We are capable of obtaining financing from third parties, if necessary, without reliance on our Single Largest Group of Shareholders and their respective close associates.

As of the Latest Practicable Date, we did not have any outstanding loans granted or guaranteed by any of our Single Largest Group of Shareholders or their respective close associates to us.

Based on the above, our Directors believe that we are able to maintain financial independence and would not place undue reliance on our Single Largest Group of Shareholders or their respective close associates.

RELATIONSHIP WITH OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders’ interests. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Single Largest Group of Shareholders:

- (a) as part of our preparation for the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules which will take effect upon Listing. In particular, our Articles of Association provide that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (b) a Director with himself/herself or his/her close associates having material interests shall make full disclosure in respect of matters that may have conflict or potentially conflict with any of our interest at the meeting of our Board, shall abstain from voting on such matters and not be counted in the quorum, unless the attendance or participation of such Director at such meeting of the Board is permitted under the Listing Rules;
- (c) we are committed that our Board should include a balanced composition with not less than one-third of independent non-executive Directors to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. For details of our independent non-executive Directors, see “Directors, Supervisors and Senior Management—Board of Directors—Independent non-executive Directors”;
- (d) we have appointed Somerley Capital Limited as our Compliance Advisor pursuant to Rule 3A.19 of the Listing Rules, 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;
- (e) our Company has established internal control mechanisms to identify connected transactions. Upon and after the Listing, if our Company enters into connected transactions with our Single Largest Group of Shareholders or any of their associates, our Company will comply with the applicable Listing Rules; and
- (f) as required by the Listing Rules, our independent non-executive Directors shall review any continuing connected transaction annually and confirm in our annual report that such transactions have been entered into in our ordinary and usual course of business, are either on normal commercial terms or on terms no less favorable to us than those available to or from independent third parties and on terms that are fair and reasonable and in the interests of our Shareholders as a whole.

Based on the above, our Directors believe that there are sufficient and adequate corporate governance measures in place to manage existing and potential conflicts of interest that may arise between our Group and our Single Largest Group of Shareholders, and to protect minority shareholders’ interests after the Listing.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [REDACTED] and assuming the [REDACTED] is not exercised, the following persons will have interests and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Type of Shares to be held upon Listing	Nature of Interest	As of the Latest Practicable Date		Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised)	
			Number of Shares ⁽¹⁾	Approximate percentage in the total issued Shares	Number of Shares ⁽¹⁾	Approximate percentage of shareholding in the relevant type of Shares
Mr. Chen	H Shares	Beneficial interest, interests held jointly with another person, interest in controlled corporations, interest of spouse ⁽²⁾⁽³⁾⁽⁴⁾	18,532,343	37.06%	[REDACTED]	[REDACTED]%
Mr. Huang	H Shares	Beneficial interest, interests held jointly with another person, interest in controlled corporations ⁽²⁾⁽³⁾	18,532,343	37.06%	[REDACTED]	[REDACTED]%
Ms. Bai	H Shares	Beneficial interest, interests held jointly with another person ⁽²⁾⁽³⁾	18,532,343	37.06%	[REDACTED]	[REDACTED]%
Ms. Zeng	H Shares	Interest in controlled corporations, interest of spouse ⁽²⁾⁽³⁾⁽⁴⁾	18,532,343	37.06%	[REDACTED]	[REDACTED]%
Ms. Yu Jia (于佳)	H Shares	Interest in controlled corporations ⁽⁵⁾	5,333,202	10.67%	[REDACTED]	[REDACTED]%
Mr. Hu Xubo (胡旭波)	H Shares	Interest in controlled corporations ⁽⁵⁾	5,333,202	10.67%	[REDACTED]	[REDACTED]%
Suzhou Qiman Investment Management Co., Ltd. (蘇州啟滿投資管理有限公司)	H Shares	Interest in controlled corporations ⁽⁵⁾	5,333,202	10.67%	[REDACTED]	[REDACTED]%
Suzhou Qiping Investment Management Partnership Enterprise (Limited Partnership) (蘇州啟平投資管理合夥企業(有限合伙))	H Shares	Interest in controlled corporations ⁽⁵⁾	5,333,202	10.67%	[REDACTED]	[REDACTED]%
Suzhou Industrial Park Qiming Rongke Equity Investment Partnership Enterprise (Limited Partnership) (蘇州工業園區啟明融科股權投資合夥企業(有限合伙)) (“Suzhou Qiming Rongke”)	H Shares	Beneficial interest ⁽⁵⁾	5,333,202	10.67%	[REDACTED]	[REDACTED]%

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Type of Shares to be held upon Listing	Nature of Interest	As of the Latest Practicable Date		Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised)	
			Number of Shares ⁽¹⁾	Approximate percentage in the total issued Shares	Number of Shares ⁽¹⁾	Approximate percentage of shareholding in the relevant type of Shares
China International Capital Corporation Limited	H Shares	Interest in controlled corporations ⁽⁶⁾	5,326,623	10.65%	[REDACTED]	[REDACTED]%
CICC Capital Management Co., Ltd. (中金資本運營有限公司)	H Shares	Interest in controlled corporations ⁽⁶⁾	5,326,623	10.65%	[REDACTED]	[REDACTED]%
CICC Cultural Consumption Industry Equity Investment Fund (Xiamen) Partnership Enterprise (Limited Partnership) (中金文化消費產業股權投資基金(廈門)合夥企業(有限合夥)) (“CICC Cultural Consumption Fund”)	H Shares	Beneficial interest ⁽⁶⁾	5,326,623	10.65%	[REDACTED]	[REDACTED]%
Mr. Jin Haitao (靳海濤)	H Shares	Interest in controlled corporations ⁽⁷⁾	4,452,295	8.18%	[REDACTED]	[REDACTED]%
Shenzhen Qianhai Huaize Ark Venture Capital Enterprise (Limited Partnership) (深圳前海淮澤方舟創業投資企業(有限合夥))	H Shares	Interest in controlled corporations ⁽⁷⁾	4,452,295	8.18%	[REDACTED]	[REDACTED]%
Qianhai Ark Assets Management Co., Ltd. (前海方舟資產管理有限公司) (“Qianhai Ark”)	H Shares	Beneficial interest, interest in controlled corporations ⁽⁷⁾	4,452,295	8.18%	[REDACTED]	[REDACTED]%
Mr. Shi Anping (施安平)	H Shares	Interest in controlled corporations ⁽⁸⁾	3,620,996	6.65%	[REDACTED]	[REDACTED]%

Notes:

(1) All interests stated are long positions.

(2) Pursuant to the Concert Party Agreement, Mr. Huang and Ms. Bai confirmed and agreed that, since January 1, 2018, they have acted and will continue to act in concert with Mr. Chen when exercising their shareholder rights or those of entities under their control as shareholder(s) of the Company, by following Mr. Chen’s instructions. Such act-in-concert arrangement will remain in effect so long as the parties continue to hold, directly or indirectly, an interest in the Shares. Therefore, under the SFO, each of Mr. Chen, Mr. Huang and Ms. Bai is deemed to be interested in the Shares held by each other. See “History, Development and Corporate Structure—Concert Party Arrangement and Our Single Largest Group of Shareholders” for further details.

(3) Tianjin Tangdi Zhihua is owned as to 0.1% by Ms. Zeng (the spouse of Mr. Chen) as its general partner, 49.95% by Mr. Chen as its limited partner and 49.95% by Mr. Huang as its limited partner. Therefore, under the SFO, each of Mr. Chen, Mr. Huang and Ms. Zeng is deemed to be interested in the Shares held by Tianjin Tangdi Zhihua.

SUBSTANTIAL SHAREHOLDERS

- (4) Ms. Zeng is the spouse of Mr. Chen. Therefore, under the SFO, Ms. Zeng is deemed to be interested in the Shares held by Mr. Chen.
- (5) Suzhou Qiming Rongke is owned as to approximately 1.11% by its general partner, Suzhou Qiping Investment Management Partnership Enterprise (Limited Partnership), whose general partner is Suzhou Qiman Investment Management Co., Ltd. holding approximately 3.85% partnership interest therein, which is ultimately controlled by Ms. Yu Jia and Mr. Hu Xubo. Therefore, under the SFO, each of Ms. Yu Jia, Mr. Hu Xubo, Suzhou Qiman Investment Management Co., Ltd. and Suzhou Qiping Investment Management Partnership Enterprise (Limited Partnership) is deemed to be interested in the Shares held by Suzhou Qiming Rongke.
- (6) CICC Cultural Consumption Fund is managed by its general partner, CICC Capital Management Co., Ltd., which is wholly owned by China International Capital Corporation Limited, a joint stock company incorporated in the PRC whose shares are listed on the Shanghai Stock Exchange (stock code: 601995) and the Hong Kong Stock Exchange (stock code: 3908). Therefore, under the SFO, each of China International Capital Corporation Limited and CICC Capital Management Co., Ltd. is deemed to be interested in the Shares held by CICC Cultural Consumption Fund.
- (7) Qianhai Equity Investment Fund (Limited Partnership) (前海股權投資基金 (有限合夥)) (“Qianhai Equity Fund”) is owned as to approximately 1.05% by Qianhai Ark as its general partner. Qianhai Equity Investment Fund (Limited Partnership) (中原前海股權投資基金 (有限合夥)) (“Zhongyuan Qianhai Fund”) is owned as to approximately 1.51% by Qianhai Ark (Zhengzhou) Venture Capital Management Enterprise (Limited Partnership) (前海方舟 (鄭州) 創業投資管理企業 (有限合夥)) as its general partner, which is ultimately controlled by Qianhai Ark. Qianhai Ark is owned as to approximately 58.71% by Shenzhen Qianhai Huaize Ark Venture Capital Enterprise (Limited Partnership) (深圳前海淮澤方舟創業投資企業 (有限合夥)), which is ultimately controlled by Mr. Jin Haitao. Therefore, under the SFO, Mr. Jin Haitao is deemed to be interested in the Shares held by Qianhai Equity Fund, Zhongyuan Qianhai Fund and Qianhai Ark, and Qianhai Ark is deemed to be interested in the Shares held by Qianhai Equity Fund and Zhongyuan Qianhai Fund.
- (8) Shenzhen Guozhong SME Development Private Equity Investment Fund Partnership (Limited Partnership) (深圳國中小企業發展私募股權投資基金合夥企業 (有限合夥)) (“Shenzhen Guozhong Fund”) is owned as to 1% by its general partner, Shenzhen Guozhong Venture Capital Management Co., Ltd. (深圳國中創業投資管理有限公司), which is ultimately controlled by Mr. Shi Anping. Guozhong Private Equity Investment Fund (Xi'an) Partnership (Limited Partnership) (國中私募股權投資基金 (西安) 合夥企業 (有限合夥)) (“Xi'an Guozhong Fund”) is owned as to 1% by Shenzhen Guozhong Changrong Asset Management Co., Ltd. (深圳國中常榮資產管理有限公司) as its general partner, which is ultimately controlled by Mr. Shi Anping. Therefore, under the SFO, Mr. Shi Anping is deemed to be interested in the Shares held by Shenzhen Guozhong Fund and Xi'an Guozhong Fund.

Saved as disclosed herein, 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) and the Conversion of Unlisted Shares into H Shares, have any interest and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed to the 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.

SHARE CAPITAL

As of the Latest Practicable Date, the registered share capital of our Company was RMB50,000,000 divided into 50,000,000 Unlisted Shares, with a nominal value of RMB1.00 each.

Immediately after the completion of the [REDACTED] and the Conversion of Unlisted Shares into H Shares (assuming the [REDACTED] is not exercised), the share capital of our Company will be as follows:

Number of Shares	Description of Shares	Approximate percentage of total issued share capital
[REDACTED]	H Shares to be converted from Unlisted Shares	[REDACTED]%
[REDACTED]	H Shares to be issued under the [REDACTED]	[REDACTED]%
<u>[REDACTED]</u>		<u>100.00%</u>

Immediately after the completion of the [REDACTED] and the Conversion of Unlisted Shares into H Shares (assuming the [REDACTED] is exercised in full), the share capital of our Company will be as follows:

Number of Shares	Description of Shares	Approximate percentage of total issued share capital
[REDACTED]	H Shares to be converted from Unlisted Shares	[REDACTED]%
[REDACTED]	H Shares to be issued under the [REDACTED]	[REDACTED]%
<u>[REDACTED]</u>		<u>100.00%</u>

SHARE CLASS

Upon the completion of the [REDACTED] and the Conversion of Unlisted Shares into H Shares, our Shares will consist of [REDACTED] H Shares. H Shares all ordinary Shares in the share capital of our Company.

Upon the completion of the [REDACTED] and the Conversion of Unlisted Shares into H Shares, apart from certain qualified domestic institutional investors in the PRC, the qualified PRC investors under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect and other persons who are entitled to hold our H Shares pursuant to relevant PRC laws and regulations or upon approvals of any competent authorities, H Shares generally cannot be subscribed by or traded between legal or natural PRC persons.

All dividend for H Shares will be denominated and declared in Renminbi, and paid in Hong Kong dollars or Renminbi. Other than cash, dividends could also be paid in the form of shares or a combination of cash and shares.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETING IS REQUIRED

Pursuant to the PRC Company Law and the terms of the Articles of Association, our Company may from time to time by special resolution of shareholders, among others, increase its capital or decrease its capital. For details of circumstances under which our Shareholders’ general meetings are required, see “Appendix V—Summary of Articles of Association” to this document.

CONVERSION OF UNLISTED SHARES INTO H SHARES

Pursuant to the regulations prescribed by the securities regulatory authorities of the State Council, the Unlisted Shares may be converted into H Shares. Such converted Shares could be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted Shares, any requisite internal approval process has been duly completed and all the filing procedures with the relevant regulatory authorities, including CSRC which requires administrative filing procedures for the conversion and trading of such converted Shares, have been obtained. In addition, such conversion and trading shall comply with the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. If any of the Unlisted Shares are to be converted, listed and traded as H Shares on the Stock Exchange, such conversion, listing and trading will need to be filed with the relevant PRC regulatory authorities, including the CSRC, and the approval of the Stock Exchange.

Filing with the CSRC and Full Circulation Application

In accordance with the Guidelines for the “Full Circulation” Program for Domestic Unlisted Shares of H-share Listed Companies (《H股公司境内未上市股份申请「全流通」业务指引》) and the Overseas Listing Trial Measures announced by the CSRC, H-share listed companies which apply for the conversion of domestic shares and unlisted foreign shares into H shares for listing and circulation on the Stock Exchange shall file the application with the CSRC according to the administrative filing procedures necessary for the Overseas Listing Trial Measures. An H-share listed company may apply for a “Full Circulation” separately or when applying for refinancing overseas. An unlisted domestic joint stock company may apply for “Full Circulation” when applying for an overseas initial public offering.

We have filed with the CSRC for, and received the filing notice from the CSRC dated [●] in relation to the [REDACTED] and the conversion of [REDACTED] Unlisted Shares into H Shares on a one-for-one basis upon Listing.

Listing Approval by the Stock Exchange

We have applied to the Stock Exchange for the approval for the granting of listing of, and permission to deal in, our H Shares to be issued pursuant to the [REDACTED] (including any H Shares which may be issued pursuant to the exercise of the [REDACTED]) and the H Shares to be converted from [REDACTED] Unlisted Shares on the Stock Exchange, which is subject to the approval by the Stock Exchange.

We will perform the following procedures for the Conversion of Unlisted Shares into H Shares after receiving the approval of the Stock Exchange: (a) giving instructions to our H Share Registrar regarding relevant share certificates of the converted H Shares; and (b) enabling the converted H Shares to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in the CCASS.

The Conversion of Unlisted Shares into H Shares will involve an aggregate of [REDACTED] Unlisted Shares held by [REDACTED] existing Shareholders, representing approximately [REDACTED]% of total issued Shares as of the Latest Practicable Date and approximately [REDACTED]% of total issued Shares upon completion of the Conversion of Unlisted Shares into H Shares and the [REDACTED] (assuming the [REDACTED] is not exercised).

SHARE CAPITAL

TRANSFER OF SHARES ISSUED PRIOR TO [REDACTED]

The PRC Company Law provides that in relation to the public offering of a company, the shares issued prior to the public offering shall not be transferred within a period of one year from the date on which the publicly offered shares are listed on any stock exchange. Accordingly, Shares issued by our Company prior to the [REDACTED] shall be subject to such statutory restriction and not be transferred within a period of one year from the [REDACTED]. See “History, Development and Corporate Structure—[REDACTED] Investments.”

For details of the lock-up undertaking given by our Single Largest Group of Shareholders to the Stock Exchange, see “[REDACTED].”

FINANCIAL INFORMATION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included in the Accountants’ Report in Appendix I to this document. Our consolidated financial statements have been prepared in accordance with IFRS Accounting Standards.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us 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. You should not place undue reliance on any such statements. Our actual future results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Risk Factors,” “Forward-Looking Statements” and elsewhere in this document.

For the purpose of this section, unless the context otherwise requires, reference to the years of 2022, 2023 and 2024 refer to the years ended December 31, 2022, 2023 and 2024, respectively.

OVERVIEW

We are a leading IP toy company in China, with a portfolio of over 100 proprietary and licensed IPs as of December 31, 2024. Since the launch of our brand in 2015, we have followed an IP-centric strategy, leveraging our acute insights into diverse consumer needs and comprehensive product development capabilities to continually develop engaging IP toys of multiple genres and in turn enhance the commercial value and influence of IPs. According to CIC, we are the second-largest multi-genre Chinese IP toy company in terms of China GMV in 2024, and the third-largest Chinese IP toy company overall by the same measure.

We achieved significant growth during the Track Record Period. Our revenue increased from RMB462.9 million in 2022 to RMB630.1 million in 2024, representing a CAGR of 16.7%. In particular, our revenue from overseas markets increased from RMB35.4 million in 2022 to RMB147.4 million in 2024, at a CAGR of over 100%. During this period, we recorded losses of RMB1.7 million, RMB71.9 million and RMB121.5 million in 2022, 2023 and 2024, respectively. We also use adjusted (loss)/profit (a non-IFRS measure) to facilitate assessment of our operating performance by eliminating impact of certain non-operating items. During the Track Record Period, our adjusted loss of RMB56.8 million in 2022 turned into adjusted profit of RMB19.1 million and RMB32.0 million in 2023 and 2024, respectively.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition are affected by a number of general factors influencing the overall global toy market. These factors include macro-economic trends, industry development and competitive landscape in the market. Any adverse development can have a negative impact on our results of operations.

In addition to these general factors, our results of operations are affected by the following specific factors.

Global Consumers’ Demand for IP Toys

Our results of operations were and are expected to continue being affected by the global consumers’ demand for IP toys. During the Track Record Period, our revenue from sales of products, comprising primarily toys based on proprietary and licensed IPs, amounted to RMB456.9 million, RMB478.4 million and RMB629.1 million in 2022, 2023 and 2024, respectively, increasing at a CAGR of 17.3% and representing 98.7%, 99.2% and 99.8% of our total revenue for the same years.

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Over the past years, there has been a clear rise in prominence and acceptance of the IP toy culture in China, captivating not only the traditional audience of children but also “kidults,” adult consumers across a broad age spectrum, possessing deep emotional connection to their beloved IPs and strong buying power. This rise has been driven by sustained economic advancement and rising income levels in China over recent decades. According to CIC, China’s per capita GDP crossed the threshold of US\$10,000 in 2024 and consumers tend to increase their expenditures on cultural and entertainment products and services after a country’s per capita GDP exceeds that milestone. This evolvement of consumption habit has led to a more expansive and engaged fan base and boosted market demand for IP toy merchandise like ours, with a discernible upward trajectory as consumer interest unfolds. According to CIC, China’s IP toy market reached an annual GMV of RMB75.6 billion in 2024, and is expected to increase to RMB167.5 billion by 2029, at a CAGR of 17.2%.

In addition to the market in China, sales of IP toys in various overseas markets, especially Southeast Asia, Japan & South Korea and North America, have also witnessed rapid growth, providing Chinese IP toy companies with ample expansion opportunities. According to CIC, the GMV of IP toy markets in Southeast Asia, Japan & South Korea and North America reached RMB18.1 billion, RMB43.4 billion and RMB139.0 billion in 2024, respectively, and are expected to increase to RMB45.1 billion, RMB56.1 billion and RMB192.7 billion in 2029, respectively. During the Track Record Period, our revenue generated from overseas markets amounted to RMB35.4 million, RMB58.6 million and RMB147.4 million in 2022, 2023 and 2024, respectively, increasing at a GAGR of over 100.0%, and representing 7.6%, 12.1% and 23.4% of our total revenue for the same years. As the fascination with IP toys continues to proliferate globally, we believe we are well-positioned to leverage this trend, capitalizing on international market potential and expanding our footprint across such regions.

IP and Product Portfolio

Our expansive and diversified IP portfolio lays a solid foundation for the expansion of our product offering. Since our inception, we have actively developed and accumulated a diverse collection of proprietary and licensed IPs, catering to the preferences of various consumer groups and creating a strong foundation for our brand image. When accessing potential IPs for development or licensing, we consider key factors including overall popularity, lifecycle, consumer preferences and potential for product offering expansion. As of December 31, 2024, we had 35 proprietary IPs, spanning categories such as pop IPs, sci-fi IPs and cultural IPs, and 80 licensed IPs, including globally recognized classics, as well as notable Chinese IPs. Our IPs are market-tested and continue to evolve with new offerings, ensuring ongoing vitality.

Our ability to leverage our IP portfolio to craft an optimal product offering is essential to our success. We have adopted an IP-centric product development strategy and built an extensive product offering with continuous iterations of innovative, fun and high-quality toys that are designed to resonate with the distinct traits, narratives and settings of their respective IPs. Our diversified product portfolio comprises figures, action figures, wind-up toys, mecha & model kits, plush toys and accessories, and continues to expand, with an average of over 500 new SKUs introduced each year during the Track Record Period. Our successful products enabled us to achieve rapid revenue growth during the Track Record Period.

We intend to enhance our IP portfolio, including exploring further opportunities for commercializing our proprietary IPs, as well as strengthening relationships with established IP proprietors and licensors. Additionally, we intend to broaden our product matrix to appeal to a more diverse consumer base. The ability to effectively develop and introduce innovative and playful products will have a significant impact on our future growth.

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Sales Network and Marketing Efforts

We have established a sales network, covering both China and key overseas markets, such as Southeast Asia, Japan & South Korea and North America. Our network primarily consists of (i) direct sales, mainly through our brand stores and online sales channels and (ii) distributor sales.

We engage directly with consumers through our self-operated brand stores. We also established our online presence through our 52TOYS *WeChat* mini program and our mobile app, as well as across mainstream e-commerce platforms. As of the Latest Practicable Date, we had accumulated over 4.7 million registered members. During the Track Record Period, our revenue from direct sales amounted to RMB146.2 million, RMB168.8 million and RMB194.8 million, respectively, accounting for 31.6%, 35.0% and 30.9% of our total revenue for the respective years.

In addition to our direct sales channels, our sales network also included 336 distributors in China and 90 distributors overseas as of December 31, 2024. As of the same date, we had 16 authorized brand stores in key overseas markets operated by our local distributors. In 2022, 2023 and 2024, revenue from our distributor sales amounted to RMB308.6 million, RMB299.7 million and RMB421.0 million, accounting for 66.7%, 62.1% and 66.8% of our total revenue for the respective years.

Integrated with our sales channels, we carry out a combination of offline and online marketing activities, such as pop-up events and promotion campaigns on social media in collaboration with influencers. In 2022, 2023 and 2024, our selling and marketing expenses were RMB126.4 million, RMB117.1 million and RMB139.6 million, accounting for 27.3%, 24.3% and 22.2% of our total revenue in the respective years.

Going forward, we intend to continue expanding our direct sales channels by setting up more brand stores. At the same time, we will continue deepening our collaboration with distributors. The successful expansion of our direct sales channels and distributor network, as well as our ability to carry out effective marketing campaigns will affect our business development and results of operation.

Ability to Efficiently Manage Our Supply Chain

Efficient supply chain management is vital to our business’s sustained success and profitability. By collaborating with specialized third-party partner factories, we form a comprehensive production network that can ensure robust production capacity and have a dedicated supply chain management team to ensure smooth transition from product design to manufacturing. In addition, we adopt strict quality control measures including post-production inspection and final quality control over our manufacturing process to guarantee product excellence and have staff stationed at the partner factories to oversee the production process.

Cost control is a key aspect of our supply chain management. Our cost of sales, including cost of products sold, licensing costs, molding costs, sorting and logistics costs and labor and other costs, amounted to RMB329.3 million, RMB287.1 million and RMB378.6 million in 2022, 2023 and 2024, respectively, representing 71.1%, 59.5% and 60.1% of our revenue in the same years, respectively. Our ability to control our cost of sales is crucial in maintaining a desirable profitability. In addition, we believe that as our business scales, we will increasingly benefit from the economies of scale. Our ability to effectively control the cost of sale is important for sustaining and improving our profitability.

BASIS OF PREPARATION

Our financial information during the Track Record Period has been prepared in accordance with IFRS Accounting Standards, which comprise all standards and interpretations approved by the International Accounting Standards Board. For the purpose of preparing the financial information for the Track Record

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Period, we have consistently applied the accounting policies, which conform with IFRS Accounting Standards and are effective for the accounting period beginning on January 1, 2024, throughout the Track Record Period.

See note 2 and note 3 to the Accountants’ Report set out in Appendix I to this document.

MATERIAL ACCOUNTING POLICIES, JUDGMENT AND ESTIMATES

Note 4 and note 5 to the Accountants’ Report set out in Appendix I to this document set forth certain material accounting policy and critical accounting judgements information, which are important for understanding our financial conditions and results of operations.

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating 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 results of operations. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. We review such estimates and underlying assumptions on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Below are accounting policies that we believe are of critical importance to us or involve the most material estimates, assumptions and judgments used in the preparation of our financial statements. For further details, see note 4 and note 5 to the Accountants’ Report set out in Appendix I to this document.

Revenue Recognition

We recognize revenue when or as a performance obligation is satisfied, namely, when the control of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. When control is transferred over time, we recognize the revenue over time by reference to the progress towards complete satisfaction of the relevant performance obligation. Otherwise, we recognize the revenue at a point in time when the customer obtains control of the distinct good or service. We primarily derive revenue from sales of products and provision of other services.

Sales of products

For the sales of products, we recognize revenue when the control of the products has been transferred to our customers.

Direct sales

We directly sold our products to customers primarily through our online channels and self-operated brand stores during the Track Record Period. We recognize revenue from direct online sales when the products are delivered and received by the customers. We recognize revenue from direct offline sales to customers when the customers take physical possession of and pay for the products in the stores.

Distributor sales

During the Track Record Period, we sold products to distributors, who bear inventory risk. The distributors are responsible for selling and fulfilling all obligations in their sales contracts with their customers, including delivering the products and providing customer support. Therefore, we determine that the distributors are our customers.

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We recognize revenue from distributor sales when control of the products has been transferred, namely, when the products have been delivered to the distributors’ warehouses or specified locations and accepted by the distributors.

Consignment sales

The consignment sales partners have not obtained control of the products when the products have been delivered to the dealers in consignment arrangements. We recognize revenue from consignment sales when the products are sold to end-consumers by consignment sales partners.

Other services

For other services, which primarily include IP licensing services and advertising services, revenue is recognized over time in accordance with the relevant agreements since the customers simultaneously receive and consume the benefits provided by us.

Variable consideration

Revenue is recognized when control of goods or services is transferred to the customer at an amount that reflects the consideration to which we expect to be entitled. Variable consideration, such as sales rebates, is estimated using the expected value method and is included in the transaction price only to the extent that it is highly probable that a significant reversal of revenue will not occur.

At the end of each year, we review and update our estimates of variable consideration, to represent faithfully the circumstances present at the time and the changes in circumstances during the period.

Refund liabilities

For sale of products with right of return, we account for the potential sales returns as a variable consideration under IFRS 15 *Revenue from Contracts with Customers*. The amount of revenue recognized is adjusted to reflect the expected returns, and a corresponding refund liability and asset for the right to recover goods are recognized.

Customer loyalty program

We operate a loyalty program through which customers accumulate points on purchases of products that entitle them to discounts on future purchases. The promise to provide the discount to the customer is therefore a separate performance obligation.

We allocate the transaction price between the product and the loyalty points awarded based on its relative stand-alone selling price. The stand-alone selling price per point is estimated by considering the discount provided upon redemption and the likelihood of redemption based on historical experience. While we recognize revenue for the product at the point of sale, the portion of the transaction price allocated to the loyalty points is recorded as a contract liability at the point of sale, representing our obligation to honor the points in the future. We recognize revenue related to the loyalty points when the points are redeemed by the customer. For points that are unlikely to be redeemed (based on historical trends), we recognize relevant revenue proportionately in line with the pattern of customer redemptions.

Inventories

We measure our inventories at the lower of cost and net realizable value. The net realizable value of inventories is based on estimated selling prices less any estimation costs to be incurred to completion and costs necessary to make the sale. Where the actual outcome or expectation in future is different from the

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original estimate, the differences will have an impact on the carrying amounts of inventories and the write-down of inventories in the period in which the estimate has been changed. We re-assess the estimation at the end of each year. See note 22 to the Accountants’ Report set out in Appendix I to this document for details on our inventories.

Leases

We assess whether a contract is or contains a lease based on the definition under IFRS 16 at inception of a contract. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Short-term leases

We apply the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. We recognize lease payments on short-term leases as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes: (i) the amount of the initial measurement of the lease liability; and (ii) any lease payments made at or before the commencement date. Right-of-use assets are measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. We present right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits are accounted under IFRS 9 *Financial Instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, we recognize and measure the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, we use the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, we adjust lease liabilities by interest accretion and lease payments. We present lease liabilities as a separate line item on the consolidated statement of financial position.

Intangible Assets

Our intangible assets are software and licensed IPs, which are amortized on a straight-line basis at the following rates per annum:

Software	33.3%
Licensed IPs	Over the period between the commencement date and the end date of the IP authorization as stipulated in the contract

Software is carried at cost less accumulated amortization and impairment losses, with amortization recognized on a straight-line basis over the estimated useful lives of 3 years.

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Licensed IPs are carried at cost less accumulated amortization and impairment losses. The historical costs of licensed IPs are measured at the present values of the fixed minimum payments at the date of purchase of the respective license rights. Amortization of licensed IPs is recognized on a straight-line basis over the license term. Variable payments related to license rights that depend on sales are recognized in profit or loss in the period in which the triggering condition occurs.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment on property, plant and equipment, intangible assets and right-of-use assets

We review the carrying amounts of our property, plant and equipment, intangible assets and right-of-use assets with finite useful lives at the end of each year to determine whether there is any indication that these assets have suffered an impairment loss. If such indication exists, we estimate the recoverable amount of the relevant asset in order to determine the extent of the impairment loss (if any).

We estimate the recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets individually. When it is not possible to estimate the recoverable amount individually, we estimate the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but the increased carrying amount would not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

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RESULTS OF OPERATIONS

The following table sets forth summary of our consolidated statements of profit or loss and other comprehensive income items for the years indicated.

	Year Ended December 31,					
	2022		2023		2024	
	(RMB in thousands, except for percentages)					
Revenue	462,919	100.0%	482,308	100.0%	630,130	100.0%
Cost of sales	(329,274)	(71.1)%	(287,136)	(59.5)%	(378,598)	(60.1)%
Gross profit	133,645	28.9%	195,172	40.5%	251,532	39.9%
Selling and marketing expenses	(126,408)	(27.3)%	(117,081)	(24.3)%	(139,623)	(22.2)%
Administrative expenses	(40,692)	(8.8)%	(29,836)	(6.2)%	(36,502)	(5.8)%
Research and development expenses	(38,430)	(8.3)%	(29,540)	(6.1)%	(38,795)	(6.2)%
Other income	7,723	1.7%	10,417	2.2%	5,249	0.8%
Other gains and losses, net	(2,305)	(0.5)%	1,234	0.3%	1,500	0.2%
Impairment losses recognized on non-financial assets	(14,789)	(3.2)%	(5,844)	(1.3)%	(1,765)	(0.3)%
Finance costs	(2,452)	(0.5)%	(1,640)	(0.3)%	(2,060)	(0.3)%
Changes in fair value of financial liabilities at fair value through profit or loss (“FVTPL”)	64,257	13.9%	(91,037)	(18.9)%	(152,394)	(24.2)%
Share of results of associates	—	—	(9)	(0.002)%	(141)	(0.02)%
Impairment losses under expected Credit loss (“ECL”) model, net of reversal	(3,279)	(0.7)%	351	(0.1)%	(3,109)	(0.5)%
Loss before tax	(22,730)	(4.9)%	(67,813)	(14.1)%	(116,108)	(18.4)%
Income tax credit/(expense)	21,022	4.5%	(4,121)	(0.8)%	(5,406)	(0.9)%
Loss and total comprehensive expense for the year	(1,708)	(0.4)%	(71,934)	(14.9)%	(121,514)	(19.3)%
(Loss)/profit and total comprehensive (expense)/income for the year attributable to:						
Owners of the Company	(1,704)	(0.4)%	(71,934)	(14.9)%	(122,083)	(19.4)%
Non-controlling interests	(4)	(0.0)%	—	—	569	0.1%

NON-IFRS MEASURES

To supplement our consolidated financial statements that are presented in accordance with IFRS Accounting Standards, we also use adjusted profit/(loss) for the year (a non-IFRS measure) and adjusted net margin (a non-IFRS measure), as additional financial measures, which are not required by, or presented in accordance with IFRS Accounting Standards. We believe that these non-IFRS measures facilitate comparisons of operating performance from year to year by eliminating potential impact of certain items. We believe that these measures provide useful information to investors and others in understanding and evaluating our consolidated financial statements in the same manner as they help our management. However, our presentation of adjusted profit/(loss) for the year (a non-IFRS measure) and adjusted net margin (a non-IFRS measure) may not be comparable to similar item measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, or as substitute for analysis of, our consolidated financial statements or financial condition as reported under IFRS Accounting Standards. We define adjusted profit/(loss) for the year (a non-IFRS measure) as profit/(loss) for the year adjusted for changes in fair value of financial liabilities at fair value through profit or loss (a non-cash item), [REDACTED] and share-based payment expenses (a non-cash item). In particular, financial liabilities at fair value through profit or loss represent certain shares with preferential rights that will be reclassified from liabilities to equity as a result of the

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conversion of shares with preferential rights into ordinary shares upon Listing. We define adjusted net margin (a non-IFRS measure) as adjusted profit/(loss) for the year (a non-IFRS measure) as a percentage of our total revenue.

	Year Ended December 31,		
	2022	2023	2024
	(RMB in thousands, except for percentages)		
Loss and total comprehensive expense for the year	(1,708)	(71,934)	(121,514)
Add:			
Changes in fair value of financial liabilities at fair value through profit or loss	(64,257)	91,037	152,394
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Share-based payment expenses	9,211	—	—
Adjusted profit/(loss) for the year (a non-IFRS measure)	(56,754)	19,103	32,013
Adjusted net margin (a non-IFRS measure)	(12.3)%	4.0%	5.1%

DESCRIPTION OF CERTAIN KEY ITEMS OF THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

The table below sets forth the breakdown of our revenue by business nature and IP types for the years indicated.

	Year Ended December 31,					
	2022		2023		2024	
	(RMB in thousands, except for percentages)					
Sales of products						
- Proprietary IPs	131,687	28.5%	129,936	27.0%	153,969	24.5%
- Licensed IPs	232,555	50.2%	286,233	59.3%	406,432	64.5%
- External Procurements	92,618	20.0%	62,244	12.9%	68,736	10.8%
	456,860	98.7%	478,413	99.2%	629,137	99.8%
Other services	6,059	1.3%	3,895	0.8%	993	0.2%
Total	462,919	100.0%	482,308	100.0%	630,130	100.0%

During the Track Record Period, we generated substantially all of our revenue from sales of products, including (i) 52TOYS-branded products based on proprietary IPs and licensed IPs and (ii) procured third-party branded products from (a) certain third-party brand for which we are entrusted to operate and (b) well-recognized international toy brands where we procure their finished products and resell for profit. Our revenue from sales of products increased during the Track Record Period as our business continued to grow, offering more products to consumers through diversified channels and expanding into overseas markets. During this period, we also generated insignificant proportions of revenue from other services, primarily through licensing out certain proprietary IPs, such as Panda Roll, and advertising.

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The table below sets forth the breakdown of our revenue by sales channel for the years indicated. Our revenue was recorded net of discount and rebate.

	Year Ended December 31,					
	2022		2023		2024	
	(RMB in thousands, except for percentages)					
Direct sales						
- Online sales	116,076	25.1%	128,992	26.7%	139,219	22.1%
- Offline sales	30,105	6.5%	39,779	8.3%	55,538	8.8%
	146,181	31.6%	168,771	35.0%	194,757	30.9%
Distributor sales	308,571	66.7%	299,711	62.1%	420,952	66.8%
Consignment sales	2,108	0.4%	9,931	2.1%	13,428	2.1%
Other services	6,059	1.3%	3,895	0.8%	993	0.2%
Total	462,919	100.0%	482,308	100.0%	630,130	100.0%

During the Track Record Period, we generated a majority of our revenue from sales of products through distributor sales. In addition, we sell our products directly to consumers through (i) online sales channels, including our official stores on mainstream e-commerce platforms in China and overseas, *WeChat* mini program and our 52TOYS mobile app, and (ii) offline sales channels, such as our brand stores. We also have consignment sales network for certain of our products such as BeastBox and Modern Ancient Series at certain sales outlets, such as gift shops at museums, amusement parks and tourists attractions.

The table below sets forth the breakdown of our revenue by region for the years indicated.

	Year Ended December 31,					
	2022		2023		2024	
	(RMB in thousands, except for percentages)					
Mainland China	427,550	92.4%	423,743	87.9%	482,747	76.6%
Overseas	35,369	7.6%	58,565	12.1%	147,383	23.4%
Total	462,919	100.0%	482,308	100.0%	630,130	100.0%

During the Track Record Period, we generated a majority of our revenue from mainland China. In addition, we also sold our products in overseas markets. Our revenue from overseas sales increased significantly during the Track Record Period as we expanded into and continued to improve our sales in major overseas markets such as Southeast Asia, Japan & South Korea and North America.

Cost of Sales

Our cost of sales primarily consists of (i) cost of products sold, which primarily include costs for outsourced manufacturing of products and procurement costs for certain third-party products, (ii) licensing fees paid for the licensed IPs, (iii) costs related to molds used in manufacturing and (iv) logistics costs and other costs.

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The table below sets forth the breakdown of our cost of sales for the periods indicated.

	Year Ended December 31,					
	2022		2023		2024	
	(RMB in thousands, except for percentages)					
Cost of products sold						
- Cost of 52TOYS-branded products	178,874	54.4%	173,345	60.4%	225,145	59.5%
- Cost of procured third-party products	72,555	22.0%	44,873	15.6%	49,952	13.1%
	251,429	76.4%	218,218	76.0%	275,097	72.6%
IP licensing costs	33,773	10.3%	23,218	8.1%	45,755	12.1%
Mold costs	23,123	7.0%	22,098	7.7%	21,478	5.7%
Logistics costs	15,999	4.9%	18,887	6.6%	30,919	8.2%
Other costs	4,950	1.4%	4,715	1.6%	5,349	1.4%
Total	329,274	100.0%	287,136	100.0%	378,598	100.0%

Gross Profit and Gross Profit Margin

During the Track Record Period, our gross profit margin was primarily affected by our product mix, sales channels and economies of scale. The table below sets forth the breakdown of our gross profit and the gross profit margin by business nature and IP types for the years indicated.

	Year Ended December 31,					
	2022		2023		2024	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	(RMB in thousands, except for percentages)					
Sales of products						
- Proprietary IPs	48,070	36.5%	60,771	46.8%	65,414	42.5%
- Licensed IPs	63,723	27.4%	117,169	40.9%	170,892	42.0%
- External Procurement	15,793	17.1%	13,337	21.4%	14,233	20.7%
	127,586	27.9%	191,277	40.0%	250,539	39.8%
Other services	6,059	100.0%	3,895	100.0%	993	100.0%
Total/Overall	133,645	28.9%	195,172	40.5%	251,532	39.9%

During the Track Record Period, the gross profit margins of 52TOYS-brand products were higher than those of procured third-party products, which usually carried relatively high procurement costs. During the Track Record Period, the gross profit margin of our other services was 100% because such services were ancillary services we provided in addition to sales of products, and there were no costs attributed specifically and exclusively to them.

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During the Track Record Period, our gross profit margins for sales through distributors were lower than those for direct sales and consignment sales, primarily because we typically sell our products to distributors at discounted prices, which are lower than our retail prices. Our online sales had lower gross profit margins than offline sales during the Track Record Period, primarily due to promotion activities on ecommerce platforms and the logistic costs associated online sales. The table below sets forth the breakdown of our gross profit and the gross profit margin by sales channel for the years indicated.

	Year Ended December 31,					
	2022		2023		2024	
	<u>Gross Profit</u>	<u>Gross Profit Margin</u>	<u>Gross Profit</u>	<u>Gross Profit Margin</u>	<u>Gross Profit</u>	<u>Gross Profit Margin</u>
	<i>(RMB in thousands, except for percentages)</i>					
Distributor sales	74,476	24.1%	104,839	35.0%	155,341	36.9%
Direct sales						
- Online	36,766	31.7%	58,839	45.6%	59,050	42.4%
- Offline	15,586	51.8%	23,442	58.9%	30,772	55.4%
	52,352	35.8%	82,281	48.8%	89,822	46.1%
Consignment sales	758	36.0%	4,157	41.9%	5,376	40.0%
Other services	6,059	100.0%	3,895	100.0%	993	100.0%
Total/ Overall	<u>133,645</u>	28.9%	<u>195,172</u>	40.5%	<u>251,532</u>	39.9%

The table below sets forth the breakdown of our gross profit and the gross profit margin by region for the years indicated.

	Year Ended December 31,					
	2022		2023		2024	
	<u>Gross Profit</u>	<u>Gross Profit Margin</u>	<u>Gross Profit</u>	<u>Gross Profit Margin</u>	<u>Gross Profit</u>	<u>Gross Profit Margin</u>
	<i>(RMB in thousands, except for percentages)</i>					
Mainland China	123,474	28.9%	171,152	40.4%	190,192	39.4%
Overseas	10,171	28.8%	24,020	41.0%	61,340	41.6%
Total/ Overall	<u>133,645</u>	28.9%	<u>195,172</u>	40.5%	<u>251,532</u>	39.9%

Selling and Marketing Expenses

Our selling and distribution expenses primarily include (i) employee benefit expenses for sales and marketing personnel, (ii) marketing and promotion, (iii) e-commerce service fees, (iv) depreciation and amortization expenses, (v) rental and related expenses for our brand stores, (vi) office and miscellaneous expenses related to sales and marketing functions and (vii) others.

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The table below sets forth the breakdown of our selling and marketing expenses for the years indicated.

	Year Ended December 31,					
	2022		2023		2024	
	(RMB in thousands, except for percentages)					
Employee benefit expenses	43,497	34.4%	49,410	42.3%	59,722	42.8%
Marketing and promotion	20,488	16.2%	19,008	16.2%	25,566	18.3%
E-commerce service fees	14,691	11.7%	13,242	11.3%	15,923	11.4%
Depreciation and amortization expense	29,835	23.6%	16,958	14.5%	15,552	11.1%
Rental and related expenses	8,784	6.9%	8,457	7.2%	12,250	8.8%
Office and miscellaneous expenses	4,670	3.7%	4,959	4.2%	5,089	3.6%
Others	4,443	3.5%	5,047	4.3%	5,521	4.0%
Total	126,408	100.0%	117,081	100.0%	139,623	100.0%

Administrative Expenses

Our administrative expenses include (i) employee benefit expenses for administrative personnel, (ii) fees for certain professional services such as legal and consulting services, (iii) office and miscellaneous expenses, (iv) depreciation and amortization, (v) rental and related expenses for our offices, (vi) [REDACTED] and (vii) others.

The table below sets forth the breakdown of the administrative expenses for the years indicated.

	Year Ended December 31,					
	2022		2023		2024	
	(RMB in thousands, except for percentages)					
Employee benefit expenses	22,995	56.5%	14,671	49.2%	16,541	45.3%
Professional Service fees	5,062	12.4%	3,327	11.2%	4,854	13.3%
Office and miscellaneous expenses	1,937	4.8%	2,558	8.6%	3,889	10.7%
Depreciation and amortization	6,188	15.2%	4,754	15.8%	4,568	12.4%
Rental and related expenses	2,730	6.7%	2,761	9.3%	3,050	8.4%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others	1,780	4.4%	1,765	5.9%	2,467	6.8%
Total	40,692	100.0%	29,836	100.0%	36,502	100.0%

Research and Development Expenses

Our research and development expenses primarily include (i) employee benefit expenses for research and development personnel, primarily including our in-house artistic team and related IT team, (ii) service fees for outsourced design and development services, (iii) office and miscellaneous expenses, (iv) depreciation and amortization expenses and others.

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The table below sets forth the breakdown of the research and development expenses for the years indicated.

	Year Ended December 31,					
	2022		2023		2024	
	(RMB in thousands, except for percentages)					
Employee benefit expenses	29,227	76.1%	22,202	75.1%	29,018	74.8%
Service Fees	7,774	20.2%	6,061	20.5%	8,494	21.9%
Office and miscellaneous expenses	540	1.4%	1,027	3.5%	1,034	2.7%
Depreciation and amortization expenses	269	0.7%	167	0.6%	132	0.3%
Others	620	1.6%	83	0.3%	117	0.3%
Total	38,430	100.0%	29,540	100.0%	38,795	100.0%

Other Income

Our other income primarily includes (i) government grants, (ii) interest income, primarily from our bank and term deposits and (iii) others. During the Track Record Period, we received government grants from local governments in the PRC for the contribution to local economic growth. These grants were recognized upon receipt. There were no unfulfilled conditions or contingencies relating to such government grants. The table below sets forth the breakdown of the other income for the years indicated.

	Year Ended December 31,		
	2022	2023	2024
	(RMB in thousands)		
Government grants	5,289	7,345	2,642
Interest income	1,563	2,945	2,249
Others	871	127	358
Total	<u>7,723</u>	<u>10,417</u>	<u>5,249</u>

Other Gains and Losses, Net

Our other gains and losses primarily include (i) fair value gains or losses on financial assets at fair value through profit or loss (“FVTPL”), (ii) loss or gain on foreign exchange, (iii) donation, (iv) loss on disposal of property, plant and equipment primarily from disposal of certain office equipment, (v) gain on early termination and modification of leases and others. During the Track Record Period, we recorded other losses of RMB2.3 million in 2022 and other gains of RMB1.2 million in 2023 and RMB1.5 million in 2024.

Impairment losses recognized on non-financial assets

We recorded impairment losses on non-financial assets of RMB14.8 million, RMB5.8 million and RMB1.8 million in 2022, 2023 and 2024, respectively, related to the adjustment of our self-operated brand stores. We evaluate these stores every six months and recognize impairment losses if the carrying value of a brand store’s right-of-use asset and property, plant and equipment exceeds its recoverable amount, accessed based on its ability to generate sales.

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Finance Costs

Our finance costs consist of interest expenses on (i) lease liabilities and (ii) license fees payables. We recorded finance costs of RMB2.5 million, RMB1.6 million and RMB2.1 million in 2022, 2023 and 2024, respectively.

Changes in Fair Value of Financial Liabilities at FVTPL

We recorded a gain from changes in fair value of financial liabilities at FVTPL of RMB64.3 million in 2022, and losses from changes in fair value of financial liabilities at FVTPL of RMB91.0 million and RMB152.4 million in 2023 and 2024, respectively. Such amounts were affected by changes in the fair value of our shares with preferential rights issued pursuant to certain financing agreements that we entered into with several investors from January 2018 to August 2021.

Income Tax Credit or Expense

Our income tax credit or expense primarily comprise current tax and deferred tax determined in accordance with the applicable enterprise income tax laws and their corresponding implementation regulations. We recorded income tax credit of RMB21.0 million in 2022 and income tax expense of RMB4.1 million and RMB5.4 million in 2023 and 2024, respectively. See note 11 to the Accountants' Report set out in Appendix I to this document for details.

During the Track Record Period, certain subsidiaries within our Group were entitled to preferential income tax rates of 2.5%, 5% or 10% as small low-profit enterprises pursuant to the relevant tax regulations and we were also entitled to claim super deductions (175.0% or 200.0%) of certain qualified research and development expenses as tax deductible expenses.

During the Track Record Period, we also had certain subsidiary operating in Hong Kong and was subject to Hong Kong profits tax at a rate of 8.25% for the first HK\$2 million of profits and 16.5% for profits above HK\$2 million, because the subsidiary was a qualifying entity under the two-tiered profit tax rates regime during this period.

During the Track Record Period and as of the Latest Practicable Date, we did not have any outstanding disputes or unresolved tax issues with the relevant tax authorities.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2024 Compared to Year Ended December 31, 2023

Revenue

Our revenue increased by 30.6% from RMB482.3 million in 2023 to RMB630.1 million in 2024 primarily driven by (i) a significant increase in revenue from overseas markets from RMB58.6 million to RMB147.4 million, due to increased popularity of our products in key overseas markets, especially Thailand, Hong Kong, Macau and Taiwan regions and Japan; and (ii) releases of new products that were popular among consumers, such as the Crayon Shin-chan wind-up toys.

Cost of Sales

Our cost of sales increased by 31.9% from RMB287.1 million in 2023 to RMB378.6 million in 2024, primarily driven by increases in (i) cost of products sold from RMB218.2 million in 2023 to RMB275.1 million in 2024 primarily as a result of the increase in our sales volume, (ii) IP licensing costs from RMB23.2 million in 2023 to RMB45.8 million in 2024 primarily attributable to increased royalty

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payments for our licensed IPs in line with the increase in revenue from such IPs, as well as new IP licensing agreements in 2024 and (iii) logistics costs from RMB18.9 million in 2023 to RMB30.9 million in 2024, primarily as a result of the increase in our sales and the expansion of our distribution network, particularly the overseas network.

Gross Profit and Gross Profit Margin

Our gross profit increased by 28.9% from RMB195.2 million in 2023 to RMB251.5 million in 2024, generally in line with the increase in our revenue. Our gross profit margin stayed relatively stable in 2024 at 39.9% as compared to 40.5% in 2023.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 19.3% from RMB117.1 million in 2023 to RMB139.6 million in 2024, primarily due to increases in (i) employee benefit expenses from RMB49.4 million in 2023 to RMB59.7 million in 2024 as a result of increase in the number of our selling and marketing personnel; (ii) marketing and promotion from RMB19.0 million in 2023 to RMB25.6 million in 2024 as we enhanced our marketing efforts, such as our online promotion through social media platforms and offline product display; and (iii) rental expenses from RMB8.5 million in 2023 to RMB12.3 million in 2024, primarily related to rental expenses for our pop-up events.

Administrative Expenses

Our administrative expenses increased by 22.3% from RMB29.8 million in 2023 to RMB36.5 million in 2024, primarily attributable to increases in (i) employee benefit expenses of RMB1.9 million, (ii) professional service expenses of RMB1.5 million, (iii) office and miscellaneous expenses of RMB1.3 million and (iv) [REDACTED] of RMB1.1 million in 2024.

Research and Development Expenses

Our research and development expenses increased by 31.3% from RMB29.5 million in 2023 to RMB38.8 million in 2024, primarily due to increases in (i) employee benefit expenses from RMB22.2 million in 2023 to RMB29.0 million in 2024 as we expanded our research and development team for new product types and (ii) service fees from RMB6.1 million in 2023 to RMB8.5 million in 2024, in line with the expansion of our product portfolio.

Other Income

Our other income decreased by 49.6% from RMB10.4 million in 2023 to RMB5.2 million in 2024, primarily due to decrease in government grants of RMB4.7 million related to certain incentive by local government for industry development.

Other Gains and Losses, Net

Our other gains and losses, net increased by 21.6% from RMB1.2 million in 2023 to RMB1.5 million in 2024.

Impairment losses recognized on non-financial assets

Our impairment losses recognized on non-financial assets decreased by 69.8% from RMB5.8 million in 2023 to RMB1.8 million in 2024, primarily due to stabilized operations and sales results of our self-operated brand stores.

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Finance costs

Our finance costs increased by 25.6% from RMB1.6 million in 2023 to RMB2.1 million in 2024.

Changes in fair value of financial liabilities at FVTPL

Our loss from changes in fair value of financial liabilities at FVTPL increased by 67.4% from RMB91.0 million in 2023 to RMB152.4 million in 2024, primarily due to our business growth and improvement in our operation efficiency, which led to an increase in our valuation and the fair value of the shares with preferential rights. As such shares were recorded as financial liabilities, this higher fair value is recorded as a loss in our Consolidated Statements of Profit or Loss and Other Comprehensive Income because it represented an increase in the liability owed to the holders of such shares.

Share of results of associates

Our share of results of associates increased from RMB9,000 in 2023 to RMB0.1 million in 2024.

Impairment losses under expected credit loss (ECL) model, net of reversal

We recorded impairment losses under ECL model of RMB3.1 million in 2024, compared to a reversal of losses of RMB0.4 million in 2023, primarily due to increase in impairment losses recognized on trade receivables, in line with increases in our trade receivables.

Income tax expense

Our income tax expense increased from RMB4.1 million in 2023 to RMB5.4 million in 2024, primarily because our adjusted profit before tax (excluding non-deductible losses from changes in fair value of financial liabilities at FVTPL) increased in 2024.

Loss for the Year

Despite the increase in our revenue, our loss for the year increased by 68.9% from RMB71.9 million in 2023 to RMB121.5 million in 2024, primarily reflecting the impact of certain non-operating items, such as the loss from changes in fair value of financial liabilities at FVTPL.

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

Revenue

Our revenue increased by 4.2% from RMB462.9 million in 2022 to RMB482.3 million in 2023 primarily attributable to (i) enhanced revenue from overseas markets such as the United States and Thailand and (ii) releases of new products that were popular among consumers, such as the Lotso “It’s me” series. Such increases were partially offset by a decrease in revenue from procured third-party products from RMB92.6 million in 2022 to RMB62.2 million in 2023, as we decided to scale down the procurement and resale of third-party products in our daily operation and further focus on the development, sales and marketing of our own products. Such changes contributed to a slight decrease in our revenue from mainland China market in 2023.

Cost of Sales

Our cost of sales decreased by 12.8% from RMB329.3 million in 2022 to RMB287.1 million in 2023, primarily driven by decrease in cost of products sold from RMB251.4 million in 2022 to RMB218.2 million in 2023, mainly because (i) we scaled down the procurement of third-party products, which typically carried

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relatively high procurement costs; and (ii) our IP licensing costs decreased from RMB33.8 million in 2022 to RMB23.2 million in 2023, primarily because that in addition to licensing fees allocated based on related revenue, the licensing costs in 2022 also included base license fees for certain licensing agreements we entered into in this year, which was amortized and recorded in the same year under our accounting policy, despite limited sales period.

Gross Profit and Gross Profit Margin

Our gross profit increased by 46.0% from RMB133.6 million in 2022 to RMB195.2 million in 2023, primarily due to the decrease in cost of sales as discussed above. Our gross profit margin increased from 28.9% in 2022 to 40.5% in 2023, primarily because (i) a larger share of our revenue in 2023 came from direct sales and consignment sales, which carry higher gross profit margins compared to distributor sales; (ii) the proportion of revenue from lower-margin third-party products decreased; (iii) we entered into certain IP licensing agreements with new product authorization in 2022 and the base licensing fees were amortized and recorded as licensing costs in the same year. However, related sales in 2022 were limited by the time required for research, development and production before launch. In 2023, the amortized licensing costs were distributed across more units as sales volume and related revenue increased.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 7.4%, from RMB126.4 million in 2022 to RMB117.1 million in 2023, primarily due to a reduction in depreciation and amortization expenses. These expenses decreased from RMB29.8 million in 2022 to RMB17.0 million in 2023, primarily due to (i) decreased number of brand stores as certain stores were negatively affected by the COVID-19 pandemic and the subsequent changes in the demographics of visitors in the shopping districts where such stores were located; and (ii) impairment losses recorded with respect to assets of certain brand stores in 2022, which lowered the net carrying amount used as the depreciation base in 2023. The decrease was partially offset by an increase in employee benefit expenses from RMB43.5 million in 2022 to RMB49.4 million in 2023, primarily because we (i) expanded to overseas e-commerce platforms; and (ii) started to operate live-streaming on certain domestic e-commerce platforms in-house in 2023, which led to increased employee benefit expenses for related personnel.

Administrative Expenses

Our administrative expenses decreased by 26.7% from RMB40.7 million in 2022 to RMB29.8 million in 2023, primarily due to (i) decrease in employee benefit expenses from RMB23.0 million in 2022 to RMB14.7 million in 2023, as we made share-based payments to certain administrative personnel in 2022 and (ii) decrease in professional service fees from RMB5.1 million in 2022 to RMB3.3 million in 2023, primarily reflecting reduced fee for certain industry study and other services we engaged in 2022.

Research and Development Expenses

Our research and development expenses decreased by 23.1% from RMB38.4 million in 2022 to RMB29.5 million in 2023, primarily due to decreases in employee benefit expenses from RMB29.2 million in 2022 to RMB22.2 million in 2023, primarily reflected share-based payments to certain research and development personnel in 2022.

Other Income

Our other income increased by 34.9% from RMB7.7 million in 2022 to RMB10.4 million in 2023, primarily due to increases in (i) government grants of RMB2.1 million related to support and incentive for local industry development from government; and (ii) interest income of RMB1.4 million.

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Other Gains and Losses, Net

Our other losses of RMB2.3 million in 2022 turned into other gains of RMB1.2 million in 2023, primarily due to increase in gain on early termination of certain leases for our self-operated brand stores of RMB1.9 million.

Impairment losses recognized on non-financial assets

Our impairment losses recognized on non-financial assets decreased by 60.5% from RMB14.8 million in 2022 to RMB5.8 million in 2023. The losses recognized in 2022 was relatively high, primarily because we set up several new self-operated brand stores in 2021 after our first store launched in 2020 obtained promising results and the sales performance of such new stores were negatively affected by the COVID-19 pandemic.

Finance costs

Our finance costs decreased by 33.1% from RMB2.5 million in 2022 to RMB1.6 million in 2023.

Changes in fair value of financial liabilities at FVTPL

We recorded a gain from changes in fair value of our financial liabilities at FVTPL of RMB64.3 million in 2022 and a loss from changes of RMB91.0 million in 2023, primarily due to our business growth and improvement in our operation efficiency, which led to an increase in our valuation and the fair value of the preferred shares.

Share of results of associates

We recorded share of results of associates of RMB9,000 in 2023.

Impairment losses under ECL model, net of reversal

We recorded impairment losses under ECL model of RMB3.3 million in 2022, compared to a reversal of losses of RMB0.4 million in 2023. The relatively high losses recognized in 2022 was primarily attributable to one distributor whose outlets were primarily located in cinema chains. Its business and credit record was negatively affected by the COVID-19 pandemic.

Income tax expense

We recorded (i) income tax credit of RMB21.0 million in 2022 due to our loss before tax that year and (ii) income tax expense of RMB4.1 million in 2023 primarily as a result of our adjusted profit before tax (excluding non-deductible losses from changes in fair value of financial liabilities at FVTPL) and applicable tax losses carried forward from 2022.

Loss for the Year

Despite the increase in our revenue, our loss for the year increased from RMB1.7 million in 2022 to RMB71.9 million in 2023, primarily reflecting the impact of certain non-operating items, such as the loss from changes in fair value of financial liabilities at FVTPL.

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SELECTED ITEMS FROM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Inventories

Our inventories include finished products, packaging materials and products shipped in transit. The table below sets forth the breakdown of our inventories as of the dates indicated.

	As of December 31,		
	2022	2023	2024
	(RMB in thousands)		
Finished products	122,522	79,288	147,744
Packaging material	464	881	2,680
Products shipped in transit	724	4,220	3,974
Total	123,710	84,389	154,398

During the Track Record Period, finished products were the primary component of our inventories. Our inventories decreased from RMB123.7 million as of December 31, 2022 to RMB84.4 million as of December 31, 2023, primarily because COVID-19 disruptions caused slower sales in the fourth quarter of 2022, which resulted in a relatively high inventory level at the end of the year. Recovery in sales, especially in the second half of 2023, combined with our effort to control inventory effectively reduced the inventory level. Our inventories increased from RMB84.4 million as of December 31, 2023 to RMB154.4 million as of December 31, 2024, primarily driven by increases in overseas sales, which usually require greater inventory to accommodate longer lead times for international distribution.

The table below sets forth an aging analysis of our inventories as of the dates indicated.

	As of December 31,		
	2022	2023	2024
	(RMB in thousands)		
Within one year	75,576	44,834	131,227
One to two years	45,034	16,649	7,052
Two to three years	2,120	21,125	5,772
Over three years	980	1,781	10,347
Total	123,710	84,389	154,398

The table below sets forth the turnover days of our inventories for the years indicated.

	Year Ended December 31,		
	2022	2023	2024
Overall inventory turnover days ⁽¹⁾	150	132	115

Note:

- (1) Inventory turnover days for each year equals the average of the beginning and ending balances of inventory for that year divided by cost of sales for that year and multiplied by 365.

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Our inventory turnover days decreased from 150 days in 2022 to 132 days in 2023 and further to 115 days in 2024, primarily due to our effort to control our inventory level to effectively respond to consumer demands and market changes, adjusting our inventory level based on real-time sales data and forecasted trends to prevent overstocking or stockouts.

As of March 31, 2025, RMB43.8 million, or 28.4% of our total inventories as of December 31, 2024, were utilized or sold.

Trade and Notes Receivables

Trade and note receivables represent outstanding amounts receivable by us from our customers in the ordinary course of business. The following table sets forth the details of our trade and note receivables as of the dates indicated.

	As of December 31,		
	2022	2023	2024
	(RMB in thousands)		
Trade receivables	23,190	41,035	55,740
Less: allowance for credit losses	(2,752)	(2,409)	(4,050)
	20,438	38,626	51,690
Notes receivables	470	—	200
Total	20,908	38,626	51,890

Our trade and note receivables increased from RMB20.9 million as of December 31, 2022 to RMB38.6 million as of December 31, 2023, primarily attributable to higher purchase amount from distributors in the fourth quarter of 2023 compared to the same period in 2022. Our trade and note receivables further increased to RMB51.9 million as of December 31, 2024, generally in line with the growth of our business.

Certain of our online sales use the payment system provided by the e-commerce platforms, where the proceeds from sale of our products first go through the bank accounts of the e-commerce platforms before credit to our bank accounts, which will result in trade receivables from such e-commerce platforms for a relatively short period. We grant credit periods to certain distributors, which are typically set at 30 days.

The table below sets forth an aging analysis of our trade receivables as of the dates indicated.

	As of December 31,		
	2022	2023	2024
	(RMB in thousands)		
Within one month	10,883	24,690	33,799
One to three months	5,307	9,890	7,770
Three to six months	3,844	3,992	8,940
Six months to one year	402	52	1,181
Over one year	2	2	—
Total	20,438	38,626	51,690

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The table below sets forth the turnover days of our trade and notes receivables for the years indicated.

	Year Ended December 31,		
	2022	2023	2024
Trade and notes receivables turnover days ⁽¹⁾	34	23	26

Note:

- (1) Trade and note receivables turnover days for each year equals the average of the beginning and ending balances of trade and notes receivables for that year divided by revenue for that year and multiplied by 365 days.

Our trade and notes receivables turnover days decreased from 34 days in 2022 to 23 days in 2023, primarily because of the relatively high accounts receivable balance as of December 31, 2021, which led to more prudent credit control measures in 2022 and 2023, enhancing our collection of outstanding receivables. Our trade and notes receivables turnover days increased slightly to 26 days in 2024, in line with the growth of our business and receivables balance.

We seek to maintain strict control over our outstanding receivables and have established credit control policy to minimize credit risk. Overdue balances are reviewed regularly by our senior management. We do not hold any collateral or other credit enhancements over our trade and note receivables. In determining the recoverability of our trade receivables, we assess the credit risk of our customers based on their financial positions, past experience, expected loss rates based on the payment profiles of sales over the Track Record Period, among other factors. As of December 31, 2022, 2023 and 2024, we made allowance for credit losses of trade receivables of RMB2.8 million, RMB2.4 million and RMB4.1 million, respectively.

As of March 31, 2025, RMB46.7 million, or 83.8% of our total trade and note receivables as of December 31, 2024, had been subsequently settled.

Other Receivables and Prepayments

The current portion of our other receivables and prepayments include (i) recoverable value added tax (VAT), (ii) prepayments to suppliers, (iii) rental deposits for our offices and brand stores, (iv) other deposits, primarily for our stores on e-commerce platforms and for pop-up events, (v) right to returned good assets, (vi) deferred share issue costs for [REDACTED] which represent the portion of [REDACTED] that is expected to be capitalized upon Listing, and (vii) other miscellaneous items. The non-current portion of our rental deposits and prepayments includes prepayments for purchase of certain equipment.

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The table below sets forth the breakdown of our other receivables and prepayments as of the dates indicated.

	As of December 31,		
	2022	2023	2024
Current:	<i>(RMB in thousands)</i>		
Recoverable value added tax	12,530	7,059	10,817
Prepayments to suppliers	10,751	5,807	7,490
Rental deposits	5,154	4,849	3,985
Other deposits	3,172	2,304	1,882
Right to returned goods assets	197	291	382
Deferred share issue costs for [REDACTED]	—	—	378
Others	786	455	441
Less: allowance for ECL	(1,654)	(1,475)	(1,279)
Total	30,936	19,290	24,096
Non-current:			
Rental deposits	4,255	2,584	1,575
Prepayments for purchase of property, plant and equipment	1,394	986	603
Less: allowance for ECL	(213)	(129)	(79)
Total	5,436	3,441	2,099

The current portion of our other receivables and prepayments decreased from RMB30.9 million as of December 31, 2022 to RMB19.3 million as of December 31, 2023, primarily due to a decrease in recoverable VAT of RMB5.5 million. Our recoverable VAT as of a specified date reflects the excess of deductible input VAT over output VAT. Such decrease in recoverable VAT was in line with our inventory levels at respective time points. The decrease in our other receivables and prepayments was also attributable to decreases in prepayments to suppliers of RMB4.9 million, primarily affected by our stocking cycle toward year-end, which was influenced by the timing of peak consumption periods such as Spring Festival. The current portion of our other receivables and prepayments increased to RMB24.1 million as of December 31, 2024, primarily driven by increases in (i) recoverable VAT of RMB3.8 million in line with the increased inventory level as of December 31, 2024 and (ii) prepayments to suppliers of RMB1.7 million in line with the expansion of our sales.

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Financial Assets at FVTPL

The table below sets forth our financial assets at FVPTL as of the dates indicated, which included investment in an unlisted company in the business of investment management and structured deposits in reputable commercial banks in China.

	As of December 31,		
	2022	2023	2024
	(RMB in thousands)		
Current:			
Structured deposits	—	—	26,077
Non-Current:			
Investment in an unlisted company	4,891	3,386	2,981
Total	4,891	3,386	29,058

Our structured deposits were mandatorily classified as financial assets at FVTPL under IFRS 9. In 2024, we made such principal-protected structured deposits of RMB26.1 million with an actual annual interest rate of 2.0% to better utilize our cash resources. All of our structured deposits as of December 31, 2024 had matured in February 2025.

Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, including but not limited to our overall financial condition, market and investment conditions, economic developments, investment cost, duration of investment, and the expected returns and potential risks of such investment.

Trade Payables

Our trade payables primarily comprise payables to our suppliers, mainly our partner factories and package suppliers. Our trade payables are non-interest bearing and the credit periods granted by our suppliers are generally within 45 days.

Our trade payables stayed relatively stable at RMB23.9 million as of December 31, 2022 and RMB25.1 million as of December 31, 2023. It decreased to RMB20.1 million as of December 31, 2024, primarily affected by our stocking cycle and settlement of related payments toward year-end.

The table below sets forth the breakdown of the aging analysis of the trade payables.

	As of December 31,		
	2022	2023	2024
	(RMB in thousands)		
Within 45 days	23,622	24,475	19,473
45 to 180 days	245	543	628
Over 180 days	10	130	21
Total	23,877	25,148	20,122

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The table below sets forth the turnover days of our trade payables for the years indicated.

	Year Ended December 31,		
	2022	2023	2024
Trade payables turnover days ⁽¹⁾	36	31	22

Note:

- (1) Trade payables turnover days for each year equals the average of the beginning and ending balances of trade payables for that year divided by cost of sales for that year and multiplied by 365 days.

As of March 31, 2025, RMB19.3 million, or 96.2% of our trade payables outstanding as of December 31, 2024, had been subsequently settled.

License Fees Payable

We recorded license fees payables in the amount of RMB14.8 million, RMB6.3 million and RMB39.1 million as of December 31, 2022, 2023 and 2024, respectively. Our license fees payables represent the base license fees and royalty payments for our licensed IPs. Its fluctuation during the Track Record Period primarily reflected the completion of payments for previous license contracts in 2023 and the start of new license contracts with certain major IP licensors in 2024.

Other Payables

Our other payables primarily comprise (i) payables for salary, welfare, and staff reimbursement (ii) other tax payables, mainly comprising VAT payables, (iii) payables for professional service fees such as legal and consulting services, (iv) payable for leasehold improvements, (v) refund liabilities, (vi) payables for marketing expenses, (vi) deposits payable collected from certain distributors and (vii) others.

The table below sets forth the breakdown of our other payables as of the dates indicated.

	As of December 31,		
	2022	2023	2024
	<i>(RMB in thousands)</i>		
Payables for salary, welfare, and staff reimbursement	7,154	8,981	10,527
Other tax payable	1,832	3,837	5,016
Payables for professional service fees	1,099	1,300	1,938
Payables for leasehold improvements	1,954	1,277	1,561
Refund liabilities	386	605	858
Payables for marketing expenses	2,121	912	650
Deposits payables	1,500	540	480
Others	1,402	2,469	2,695
Total	17,448	19,921	23,725

Our other payables increased from RMB17.4 million as of December 31, 2022 to RMB19.9 million as of December 31, 2023 and RMB23.7 million as of December 31, 2024, primarily due to the increases in (i) payables for salary and welfare, and (ii) other tax payables, primarily comprising VAT payables, which was primarily affected by our sales nearing the end of the year. Such increases were partially offset by

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decreases in (i) payables for marketing expenses related to outsourced operations of certain e-commerce platform functions, such as live-streaming, as we transitioned to handling these operations internally in 2023 and 2024; and (ii) deposit payables collected from certain distributors.

Contract Liabilities

Our contract liabilities primarily comprise advances received from our customers for sale of products through our online sales, where customers make payments upfront before we ship the products and some customers add credit or funds to their membership accounts before making purchases. We recorded contract liabilities of RMB11.5 million, RMB13.4 million and RMB14.6 million as of December 31, 2022, 2023 and 2024, respectively. The increases in our contract liabilities during this period were in line with the expansion of our online sales.

As of March 31, 2025, RMB8.5 million, or 52.4% of our contract liabilities as of December 31, 2024, had been subsequently recognized as revenue.

Lease Liabilities

Our lease liabilities pertain to payment obligations for properties leased primarily as our offices, brand stores and warehouses. The carrying amount of our lease liabilities decreased from RMB39.5 million as of December 31, 2022 to RMB28.6 million as of December 31, 2023 and RMB19.3 million as of December 31, 2024, as we adjusted our strategy for offline sales channel deployment and terminated leases for certain self-operated brand stores during this period.

Right-of-use Assets

Our right-of-use assets primarily represent properties we leased for offices, brand stores and warehouses. Our right-of-use assets decreased from RMB27.0 million as of December 31, 2022 to RMB23.2 million as of December 31, 2023, and further decreased to RMB17.8 million as of December 31, 2024, primarily as a result of depreciation.

Intangible Assets

Our intangible assets primarily represent the exclusive and non-exclusive license rights we obtained in accordance with the respective license agreement. Upon initial recognition, the licensed IPs are recognized as intangible assets at the present value of their fixed base license fees and a corresponding liability is recorded under license fee payables. Our intangible assets decreased from RMB15.0 million as of December 31, 2022 to RMB7.6 million as of December 31, 2023, primarily due to amortization, and then increased to RMB35.5 million as of December 31, 2024 as we entered into new license agreements in 2024.

Financial liabilities at FVTPL

From January 2018 to August 2021, we entered into certain financing agreements with several investors, pursuant to which we issued our series of shares with preferential rights. We designated such shares as financial liabilities at FVTPL upon initial recognition. See note 31 to the Accountants’ Report set out in Appendix I to this document for details. We recorded financial liabilities at FVTPL of RMB615.7 million, RMB706.8 million and RMB859.2 million as of December 31, 2022, 2023 and 2024, respectively.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we financed our operations primarily through proceeds from cash generated from equity financing and our operating activities. As of December 31, 2024 and March 31, 2025, we had cash and cash equivalents of RMB151.3 million and RMB167.7 million, respectively.

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Going forward, we believe our liquidity requirements could be satisfied by using funds from a combination of cash generated from our operating activities, [REDACTED] from the [REDACTED] and bank loans, if necessary. As of March 31, 2025, we had bank loan facilities of RMB30.0 million, all of which remained unutilized.

Net Current Assets/Liabilities

The table below sets forth our current assets and liabilities as of the dates indicated.

	As of December 31,			As of March 31,
	2022	2023	2024	2025
				(unaudited)
	(RMB in thousands)			
Current assets:				
Inventories	123,710	84,389	154,398	151,661
Trade and notes receivables	20,908	38,626	51,890	43,860
Other receivables and prepayments	30,936	19,290	24,096	25,649
Financial assets at FVTPL	—	—	26,077	25,000
Amounts due from related parties	—	451	474	992
Mold assets	13,360	9,293	16,274	10,743
Restricted bank deposits	5,500	—	—	—
Cash and cash equivalents	168,267	230,842	151,280	167,660
Total current assets	362,681	382,891	424,489	425,565
Current liabilities:				
Trade payables	23,877	25,148	20,122	28,307
License fees payables	14,327	4,406	35,280	28,015
Other payables	17,448	19,921	23,725	25,155
Contract liabilities	11,502	13,424	14,582	13,766
Lease liabilities	23,098	16,517	13,085	11,262
Income tax payable	4	55	237	6
Financial liabilities at FVTPL	—	706,778	859,172	907,946
Total Current Liabilities	90,256	786,249	966,203	1,014,457
Net Current assets/(liabilities)	272,425	(403,358)	(541,714)	(588,892)

Our net current liabilities increased from RMB541.7 million as of December 31, 2024 to RMB588.9 million as of March 31, 2025, primarily due to (i) an increase in financial liabilities at FVTPL of RMB48.8 million, (ii) an increase in trade payables of RMB8.2 million and (iii) a decrease in trade and notes receivables of RMB8.0 million, partially offset by (i) an increase in cash and cash equivalents of RMB16.4 million and (ii) a decrease in license fees payables of RMB7.3 million.

Our net current liabilities increased from RMB403.4 million as of December 31, 2023 to RMB541.7 million as of December 31, 2024, primarily due to (i) an increase in financial liabilities at FVTPL of RMB152.4 million, (ii) a decrease in cash and cash equivalents of RMB79.6 million and (iii) an increase in license fees payables of RMB30.9 million, partially offset by increases in (i) inventories of RMB70.0 million, (ii) financial assets at FVTPL of RMB26.1 million and (iii) trade and notes receivables of RMB13.3 million.

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We recorded net current assets of RMB272.4 million as of December 31, 2022 and net current liabilities of RMB403.4 million as of December 31, 2023, primarily due to (i) an increase in financial liabilities at FVTPL of RMB706.8 million, (ii) a decrease in inventories of RMB39.3 million and (iii) a decrease in other receivables and prepayments of RMB11.6 million, partially offset by (i) an increase in cash and cash equivalents of RMB62.6 million, (ii) an increase in trade and notes receivables of RMB17.7 million and (iii) a decrease in license fees payables of RMB9.9 million.

Cash Flow Analysis

The table below sets forth our cash flows for the years indicated.

	Year ended December 31,		
	2022	2023	2024
	<i>(RMB in thousands)</i>		
Operating cash flows before movements in working capital	(2,334)	65,786	88,808
Changes in working capital	54,840	43,673	(96,840)
Income tax paid	(6,918)	(4)	(223)
Net cash flows generated from/(used in) operating activities	45,588	109,455	(8,255)
Net cash flows used in investing activities	(26,426)	(21,340)	(50,805)
Net cash flows used in financing activities	(27,470)	(25,602)	(20,648)
Net (decrease)/increase in cash and cash equivalents	(8,308)	62,513	(79,708)
Cash and cash equivalents at beginning of year	176,271	168,267	230,842
Effects of foreign exchange rate changes	304	62	146
Cash and cash equivalents at end of year	<u>168,267</u>	<u>230,842</u>	<u>151,280</u>

Operating Activities

Our net cash flow used in operating activities in 2024 was RMB8.3 million, which primarily consisted of loss before tax of RMB116.1 million, adjusted for certain non-cash and non-operating items, primarily including (i) changes in fair value of financial liabilities at FVTPL of RMB152.4 million, (ii) amortization of intangible assets of RMB26.8 million and (iii) depreciation of right-of-use assets of RMB15.2 million. The amount was further adjusted by negative changes in working capital, primarily including (i) the increase in inventories of RMB68.8 million as we continued to expand our business, see “—Selected Items from Consolidated Statements of Financial Position—Inventories,” and (ii) the increase in trade and other receivables and prepayments of RMB20.9 million as in line with our business expansion.

Our net cash flow generated from operating activities in 2023 was RMB109.5 million, which primarily consisted of loss before tax of RMB67.8 million, adjusted for certain non-cash and non-operating items, primarily including (i) changes in fair value of financial liabilities at FVTPL of RMB91.0 million, (ii) depreciation of right-of-use assets of RMB14.9 million and (iii) amortization of intangible assets of RMB14.4 million. The amount was further adjusted by positive changes in working capital, primarily including (i) the decrease in inventories of RMB39.3 million as we effectively reduced the relatively high inventory level at the end of 2022 and (ii) the increase in trade and other payables of RMB4.4 million, partially offset by the increase in trade and other receivables and prepayments of RMB6.1 million.

Our net cash flow generated from operating activities in 2022 was RMB45.6 million, which primarily consisted of loss before tax of RMB22.7 million, adjusted for certain non-cash and non-operating items, primarily including (i) changes in fair value of financial liabilities at FVTPL of RMB64.3 million,

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(ii) depreciation of right-of-use assets of RMB23.6 million and (iii) amortization of intangible assets of RMB17.3 million. The amount was further adjusted by positive changes in working capital, primarily including (i) the decrease in trade and other receivables and prepayments of RMB63.0 million as we collected certain receivables from distributors, and (ii) the decrease in inventories of RMB23.3 million as a result of our effort to control inventory levels, partially offset by the decrease in trade payables and other payables of RMB24.5 million as we settled certain payables due to our partner factories.

Investing Activities

In 2024, we had net cash used in investing activities of RMB50.8 million, primarily due to (i) purchase of structured deposits of RMB201.0 million, and (ii) purchase of intangible assets of RMB26.0 million, which was partially offset by redemption on maturity of structured deposits of RMB175.0 million.

In 2023, we had net cash used in investing activities of RMB21.3 million, primarily due to (i) purchase of intangible assets of RMB16.1 million, and (ii) placements of term deposits with original maturity over three months of RMB10.0 million.

In 2022, we had net cash used in investing activities of RMB26.4 million, primarily due to (i) purchase of intangible assets of RMB11.3 million, and (ii) the payments for purchases of property, plant and equipment of RMB8.8 million.

Financing Activities

In 2024, we had net cash used in financing activities of RMB20.6 million, primarily due to (i) repayment of lease liabilities of RMB19.3 million and (ii) payments for the interest portion of the lease liabilities of RMB1.0 million.

In 2023, we had net cash used in financing activities of RMB25.6 million, due to (i) repayment of lease liabilities of RMB24.2 million and (ii) payments for the interest portion of the lease liabilities of RMB1.4 million.

In 2022, we had net cash used in financing activities of RMB27.5 million, due to (i) repayment of lease liabilities of RMB25.5 million and (ii) payments for the interest portion of the lease liabilities of RMB2.0 million.

INDEBTEDNESS

The table below sets forth the indebtedness as of the dates indicated.

	As of December 31,			As of
	2022	2023	2024	March 31,
				2025
				(unaudited)
	(RMB in thousands)			
Current				
Lease liabilities	23,098	16,517	13,085	11,262
Non-current				
Lease liabilities	16,387	12,100	6,215	2,677
Total	39,485	28,617	19,300	13,939

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Our lease liabilities decreased from RMB39.5 million as of December 31, 2022 to RMB28.6 million as of December 31, 2023, RMB19.3 million as of December 31, 2024 and RMB13.9 million as of March 31, 2025, primarily due to lease termination during this period.

Save as disclosed above, we did not have any bank and other loan, or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, other recognized lease liabilities, guarantees or other material contingent liabilities. Our Directors confirm that there has not been any material change in our indebtedness since March 31, 2025 and up to the date of this document.

CAPITAL EXPENDITURE

Capital Expenditure

The table below sets forth the capital expenditure for the years indicated.

	Year ended December 31,		
	2022	2023	2024
	<i>(RMB in thousands)</i>		
Payment for purchases of property, plant and equipment	8,813	2,699	5,757
Purchase of intangible assets	11,299	16,080	25,974
Total	20,112	18,779	31,731

During the Track Record Period, our capital expenditure was primarily for (i) the purchase of property, plant and equipment, primarily including electronic and office equipment and leasehold improvements for our brand stores, and (ii) the purchase of intangible assets, primarily including licensed IPs.

CONTRACTUAL COMMITMENTS

As of December 31, 2022, 2023 and 2024, we did not have any capital commitments contracted for but not yet provided. Our Directors confirm that there had been no material change in our capital commitments since December 31, 2024 and up to the Latest Practicable Date.

CONTINGENT LIABILITIES

As of December 31, 2022, 2023 and 2024 and March 31, 2025, we did not have any material contingent liabilities. Our Directors confirm that there had been no material change in our contingent liabilities since December 31, 2024 and up to the Latest Practicable Date.

WORKING CAPITAL SUFFICIENCY

Taking into account cash generated from our operating activities and the [REDACTED] from the [REDACTED] available to us, our Directors believe, and the Joint Sponsors concur, that we have sufficient working capital to meet our present and future cash requirements for at least the next 12 months from the date of publication of this document. Our Directors confirm that we had no material defaults on trade and non-trade payables and borrowings, nor did we breach any covenants during the Track Record Period and up to the date of this document.

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KEY FINANCIAL RATIOS

	Year Ended/ As of December 31,		
	2022	2023	2024
Gross profit margin (%)	28.9	40.5	39.9
Current ratio ⁽¹⁾	4.0	0.5	0.4
Adjusted current ratio ⁽²⁾	4.0	4.8	4.0
Quick ratio ⁽³⁾	2.6	0.4	0.3
Adjusted quick ratio ⁽⁴⁾	2.6	3.8	2.5

Notes:

- (1) Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the respective year.
- (2) Adjusted current ratio is calculated based on the total current assets divided by the total current liabilities excluding financial liabilities at FVTPL as at the end of the respective year.
- (3) Quick ratio is calculated as total current assets less inventories divided by the total current liabilities as at the end of the respective year.
- (4) Adjusted quick ratio is calculated as total current assets less inventories divided by the total current liabilities less financial liabilities at FVTPL as at the end of the respective year.

DISCLOSURE ABOUT FINANCIAL RISK

Our Group’s major financial instruments primarily include trade and notes receivable, other receivables, amounts due from related parties, restricted bank deposits, cash and cash equivalents, term deposits, trade payables, other payables, license fees payables and financial liabilities at FVTPL. The risks associated with these financial instruments include interest rate risk, other price risk, credit risk and liquidity risk. Our Directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. For further details, see note 38 to the Accountants’ Report set out in Appendix I to this document.

Interest rate risk

Our interest rate risk relates primarily to lease liabilities, restricted deposits, term deposits and license fees payables. We are also exposed to cash flow interest risk in relation to variable-rate bank balances which carry prevailing market interests. We manage interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook.

Other price risk

We are exposed to other price risk related to certain preferred shares measured at FVTPL and investments in financial assets measured at FVTPL. We conducted sensitivity analyses for the preferred shares with fair value measurement categorized within Level 3, see note 39 to the Accountants’ Report set out in Appendix I to this document.

Credit Risk

Credit risk refers to the risk that our counterparties may default on their contractual obligations, resulting in financial losses to us. Our credit risk exposures are primarily attributable to trade receivables, other receivables, amounts due from related parties, bank balances, term deposits, financial assets at FVTPL, structured deposits and restricted bank deposits. We do not hold any collateral or other credit enhancements to cover the credit risks associated with our financial assets.

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We performed impairment assessment for financial assets under ECL model. See note 38 to the Accountants’ Report set out in Appendix I to this document for information about our credit risk management, maximum credit risk exposures and the related impairment assessment.

Our maximum exposure to credit risk is the carrying amounts of cash and cash equivalents, restricted bank deposits, trade receivables, and financial assets included in amounts due from a related party and other receivables.

Liquidity risk

Liquidity risk is the risk that we may encounter difficulty in meeting financial obligations due to shortage of funds. We aim to reach a balance between maintaining a suitable level of cash and cash equivalents and continuity of funding and flexibility through the use of internally generated cash flows from operation. Our finance department perform cash flow forecasting and monitor rolling forecasts of our liquidity requirements to ensure we have sufficient cash to meet operational needs as well as the liabilities to other parties.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we had insignificant transactions with related parties, as set out in note 41 to the Accountants’ Report set out in Appendix I to this document. Our Directors confirm that these transactions were conducted at arm’s length basis.

OFF-BALANCE SHEET ARRANGEMENTS

We had not entered into any off-balance sheet arrangements as of the Latest Practicable Date. We had not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties of related parties. We did not have retained or contingent interests in assets transferred to an unconsolidated entity or a similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets. We had not entered into any derivative contracts that are indexed to our Shares and classified as shareholders’ equity, or that are not reflected in our consolidated financial statements. We did not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

DIVIDEND

No dividend was paid or declared by our Company during the Track Record Period. As of the Latest Practicable Date, we did not have a formal dividend policy or a fixed dividend distribution ratio. PRC laws require that dividends be paid only out of our distributable profits. Distributable profits are our after-tax profits, less appropriations to statutory and other reserves that we are required to make. Pursuant to our Articles of Association, our Board may declare dividends in the future after taking into account our results of operations, financial conditions, cash requirements and availability, and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents, applicable PRC laws and approval by our Shareholders.

DISTRIBUTABLE RESERVES

As of December 31, 2024, we did not have any distributable reserves.

DISCLOSURE REQUIRED UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

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[REDACTED]

Our [REDACTED] include [REDACTED], professional fees and other fees incurred in connection to the Listing and the [REDACTED]. [REDACTED] to be borne by us are estimated to be approximately HK\$[REDACTED] constituting approximately [REDACTED]% of the [REDACTED] from the [REDACTED]. The [REDACTED] include fees and expenses of the Joint Sponsors and [REDACTED] and fees (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] being the mid-point of the indicative [REDACTED] range) of approximately RMB[REDACTED], fees and expenses of legal advisors and accountants of approximately RMB[REDACTED] and other fees and expenses of approximately RMB[REDACTED], including, among others, fees and expenses of internal control consultant, financial printer, industry consultant and background search agent. During the Track Record Period, we incurred a total of RMB[REDACTED] (HK\$[REDACTED]) in [REDACTED], among which RMB[REDACTED] (HK\$[REDACTED]) was recognized in our consolidated statement of profit or loss and other comprehensive income, and RMB[REDACTED] (HK\$[REDACTED]) was directly attributable to the issue of our Shares to the public and will be deducted from equity upon the Listing. We estimate that we will incur additional [REDACTED] of approximately RMB[REDACTED] (HK\$[REDACTED]), of which approximately RMB[REDACTED] (HK\$[REDACTED]) is expected to be charged to our consolidated statement of profit or loss and other comprehensive income, and approximately RMB[REDACTED] (HK\$[REDACTED]) is directly attributable to the issue of our shares to the public and will be deducted from equity upon the Listing. The [REDACTED] above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited *pro forma* statement of adjusted consolidated net tangible assets of our Group attributable to owners of our Company has been prepared in accordance with paragraph 4.29(1) of the Listing Rules and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the [REDACTED] on the audited consolidated tangible assets less liabilities of our Group attributable to owners of our Company as at December 31, 2024 as if the [REDACTED] had taken place on December 31, 2024.

The unaudited *pro forma* statement of adjusted consolidated net tangible assets of our Group attributable to owners of our Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2024 or any future date.

	Audited consolidated tangible assets less liabilities of our Group attributable to owners of our Company as at December 31, 2024	Estimated [REDACTED] from the [REDACTED]	Unaudited <i>pro forma</i> adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2024	Unaudited <i>pro forma</i> adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2024 per Share
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3) HK\$ (Note 4)
Based on an [REDACTED] of HK\$[REDACTED] per Share	(487,567)	[REDACTED]	[REDACTED]	[REDACTED] [REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per Share	(487,567)	[REDACTED]	[REDACTED]	[REDACTED] [REDACTED]

Notes:

- The amount is based on the deficits of our Group attributable to owners of our Company as at December 31, 2024 amounted to RMB452,090,000, with adjustments for intangible assets of our Group attributable to owners of our Company as at December 31, 2024 of RMB35,477,000 extracted from the Accountants' Report of our Group set out in Appendix I to this document.

FINANCIAL INFORMATION

2. The estimated [REDACTED] from the [REDACTED] are based on [REDACTED] new Shares to be issued at the [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per new Share, being the lower limit and higher limit of the indicative range of the [REDACTED] respectively, after deduction of the estimated [REDACTED] (including [REDACTED] and other related expenses expected to be incurred by our Group subsequent to December 31, 2024). The calculation of such estimated [REDACTED] does not take into account any Shares which may be allotted and issued pursuant to the exercise of [REDACTED].

For the purpose of calculating the estimated [REDACTED] from the [REDACTED] the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK\$1.00 to RMB[0.9215], which was the exchange rate prevailing on [May 16], 2025 with reference to the rate published by the People’s Bank of China. No representation is made that Hong Kong dollars have been, would have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

3. The unaudited *pro forma* adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2024 per Share is calculated based on [REDACTED] Shares, being the number of Shares in issue immediately upon completion of the [REDACTED] assuming that the capitalization of share premium had been completed. Further details of the capitalization of share premium are set out in the “History, Development and Corporate Structure” section of the document. It does not take into account (i) any Share which may be allotted and issued upon the exercise of the [REDACTED], or (ii) the shares with preferential rights issued for Series C+ Financing; (iii) termination of the preferential rights of shares with preferential rights upon completion of [REDACTED].
4. The unaudited *pro forma* adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share is converted from RMB into Hong Kong dollars at the rate of HK\$1.00 to RMB[0.9215], which was the exchange rate prevailing on [May 16], 2025 with reference to the rate published by the People’s Bank of China. No representation is made that the RMB have been, would have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
5. No adjustment has been made to the unaudited *pro forma* adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2024 to reflect any trading result or any transactions of our Group entered into subsequent to December 31, 2024. In particular, the unaudited *pro forma* adjusted consolidated net tangible assets of our Group attributable to owners of our Company as shown on the table above have not been adjusted to illustrate the effect of the followings:
- (i) Subsequent to December 31, 2024, pursuant to the Series C+ Investment agreement, our Company issued 54,748 shares with preferential rights at total consideration of RMB23,268,000 to third party investors.
 - (ii) The preferential rights of shares with preferential rights shall be permanently terminated upon our Group’s completion of a qualified [REDACTED].

The combined effect of above events would have increased the unaudited *pro forma* adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2024 by RMB882,440,000, being the sum of carrying amount of shares with preferential rights as at December 31, 2024 of RMB 859,172,000 and the total consideration of RMB23,268,000 for the shares with preferential rights issued by our Company for Series C+ Financing, and would have increased the total Shares in issue by 28,120,000 Shares to a total number of [REDACTED] Shares in issue, taking into account the effect of abovementioned capitalization of share premium.

The unaudited *pro forma* adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share as at December 31, 2024 taking into account of the above subsequent events would be RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] and RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on an [REDACTED] of HK\$[REDACTED] per [REDACTED], respectively, assuming the amounts denominated in RMB could have been converted into HK\$1.00 at the rate of RMB[0.9215] to HK\$1.00, which was the exchange rate prevailing on [May 16], 2025 with reference to the rate published by the People’s Bank of China.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, since December 31, 2024 (being the date on which the latest audited consolidated financial information of our Group was prepared) and up to the date of this document, there has been no material adverse change in our financial or trading position and there is no event which would materially affect the information shown in our consolidated financial information included in the Accountants’ Report in Appendix I to this document.

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

For a detailed description of our future plans, see “Business—Our Strategies.”

USE OF [REDACTED]

Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the midpoint of the range of the [REDACTED] stated in this document), we estimate that we will receive [REDACTED] of approximately HK\$[REDACTED] from the [REDACTED] after deducting the [REDACTED] and other estimated [REDACTED] in connection with the [REDACTED] (assuming the [REDACTED] Option are not exercised). We intend to use our [REDACTED] for the purposes and in the amounts set forth below.

- (i) Approximately [20.0]%, or HK\$[REDACTED], will be allocated to further diversify and strengthen our IP portfolio.
 - (a) Approximately [10.0]%, or HK\$[REDACTED], will be used to enhance our proprietary IP portfolio. Among which, approximately [5.0]%, or HK\$[REDACTED], will be allocated to the incubation and operation of our proprietary IPs. On the one hand, we will continue investing resources in attracting designers and incubating, nurturing and operating proprietary IPs with unique artistic styles and deep cultural connotations. On the other hand, building on our successful experience in exclusively operating IPs, we will collaborate with outstanding independent designers, taking into consideration factors such as artistic style, fan base, design quality and adaptation potential. These high-quality IPs will then be launched, exclusively operated and commercialized under our 52TOYS brand. Approximately [5.0]%, or HK\$[REDACTED], will be used for the content development and promotion of the BeastBox IP, including derivative novels, comics, animations and films, to continuously enrich its content ecosystem, expand its reach to more diverse audiences, extend its IP lifecycle and enhance its commercial value.
 - (b) Approximately [10.0]%, or HK\$[REDACTED], will be used for obtaining licensing of prominent international and domestic IPs, including (1) approximately [8.0]%, or HK\$[REDACTED], will be used to maintain and expand our existing licensed IP portfolio by extending the duration of current licensing agreements and broadening the product types or geographic regions covered by such agreements; and (2) approximately [2.0]%, or HK\$[REDACTED], will be used for securing new licences for well-known classic IPs with strong fan bases, long lifespans and high commercial potential. We will collaborate with leading Chinese IPs in film, animation, gaming and traditional culture to boost their influence.
- (ii) Approximately [20.0]%, or HK\$[REDACTED], will be used for product design and development to launch new products, expand product genre and diversify our portfolio. According to CIC, we are among a few leading Chinese IP toy companies to offer products across multiple genres in China. We will focus on developing and investing in molds for existing categories, including figures, action figures, wind-up toys and mecha & model kits. By increasing the frequency of launches and expanding SKUs, we aim to grow our market share. Additionally, we will research niche toy categories, create innovative product lines, and enhance playability and interactivity to deliver fresh and engaging experiences for toy enthusiasts. In addition, we will continue to recruit talented and promising designers to expand our designer team.
- (iii) Approximately [25.0]%, or HK\$[REDACTED], will be allocated to the expansion of our domestic and international direct sales channels.

FUTURE PLANS AND USE OF [REDACTED]

According to CIC, the global IP toy market is expected to reach RMB771.7 billion in GMV in 2029, representing a CAGR of 8.0% from 2024 to 2029. China and Southeast Asia were the two fastest growing regions from 2020 to 2024, and the IP toy markets in the two regions are expected to continue this trend and grow at a CAGR of 17.2% and 20.0% from 2024 to 2029, respectively. To capitalize on this growth opportunity, enhance brand visibility and extend consumer reach, we plan to expand our direct sales channels by setting up new self-operated brand stores in mainland China and key overseas markets.

- (a) Approximately [9.0]%, or HK\$[REDACTED], will be used to establish and operate more than 100 self-operated brand stores, including flagship stores and standard brand stores, in mainland China in the next three to five years. We plan to focus on expanding our flagship store network in first-tier and emerging first-tier cities in China with high consumption power, extended fan base and established awareness of IP toy culture, while penetrating to more second- and third-tier cities through standard brand stores to reach the vast potential market and promote and cultivate IP toy culture. The estimated average investment amount for our flagship stores is approximately RMB2.0 million per store and the estimated investment amount for our standard brand stores generally ranges from RMB600,000 to RMB800,000 per store.
- (b) Approximately [16.0]%, or HK\$[REDACTED] will be used to establish more than 100 self-operated brand stores in key overseas markets with significant growth potential, such as Southeast Asia, the Hong Kong, Macau and Taiwan regions, Japan and the United States, within the next three to five years. The estimated average investment amount for our overseas brand stores is approximately RMB2.0 million per store.
- (iv) Approximately [15.0]%, or HK\$[REDACTED] will be allocated to enhance our marketing activities.
 - (a) Approximately [6.0]%, or HK\$[REDACTED] will be allocated to brand marketing and promoting IP toy culture. This includes online and offline brand marketing, industry exhibitions, design competitions and collaborative marketing with other brands, aiming to boost brand visibility and consumer recognition.
 - (b) Approximately [9.0]%, or HK\$[REDACTED] will be used for product marketing and promotion, including online promotion such as online advertising, social media operation and collaborations with KOLs, KOCs and influencers, as well as offline events and data-driven precision marketing, to support the launch of new products and sustaining demand for existing ones.
- (v) Approximately [10.0]%, or HK\$[REDACTED], will be allocated to potential investments and acquisitions of companies or assets in related industries. When evaluating potential investment or acquisition targets, we typically consider factors such as past operational and financial performance, growth potential, alignment with our strategy, management team quality and valuation. As of the Latest Practicable Date, we had not identified specific targets or initiated large-scale investment or acquisition activities. Upon receiving the [REDACTED] from the [REDACTED] we will establish a dedicated team to identify, evaluate and execute potential investments and acquisitions, and engage external advisors to support this process if necessary.
- (vi) Approximately [10.0]%, or HK\$[REDACTED], will be used for working capital and other general corporate purposes.

In the event that the [REDACTED] is set at the maximum [REDACTED] or the minimum [REDACTED] of the indicative [REDACTED] range, the [REDACTED] of the [REDACTED] will increase or decrease by approximately HK\$[REDACTED], respectively. We intend to apply the additional or reduced [REDACTED] to the above uses on a pro rata basis.

FUTURE PLANS AND USE OF [REDACTED]

The additional [REDACTED] that we would receive if the [REDACTED] was exercised in full would be HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per Share, being the midpoint of the indicative [REDACTED] range). We intend to apply the additional [REDACTED] to the above uses on a pro rata basis.

To the extent that the [REDACTED] of the [REDACTED] are not immediately used for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term interest-bearing accounts at licensed commercial banks and/or other authorized financial institutions (as defined under the Securities and Futures Ordinance, and the relevant applicable laws in the relevant jurisdiction for non-Hong Kong based deposits). We will make an appropriate announcement if there is any change to the above proposed use of [REDACTED].

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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STRUCTURE OF THE [REDACTED]

[REDACTED]

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STRUCTURE OF THE [REDACTED]

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HOW TO APPLY FOR [REDACTED]

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HOW TO APPLY FOR [REDACTED]

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HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

APPENDIX I

ACCOUNTANTS’ REPORT

The following is the text of a report set out on pages I-1 to I- [●], received from the Company’s reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.



ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF 52TOYS DEVELOPMENT CO., LTD. AND CITIGROUP GLOBAL MARKETS ASIA LIMITED AND HUATAI FINANCIAL HOLDINGS (HONG KONG) LIMITED

Introduction

We report on the historical financial information of 52TOYS Development Co., Ltd. (北京樂自天成文化發展股份有限公司, the “Company”) and its subsidiaries (together, the “Group”) set out on pages [I-3] to [I-[●]], which comprises the consolidated statements of financial position of the Group as of December 31, 2022, 2023 and 2024, the statements of financial position of the Company as of December 31, 2022, 2023 and 2024, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended December 31, 2024 (the “Track Record Period”) and material accounting policy information and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages [I-3] to [I-[●]] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [date] (the “document”) in connection with the [REDACTED] 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 (the “Directors”) are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, 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 (the “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’ judgment, 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 Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information 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 Group’s financial position as of December 31, 2022, 2023 and 2024, of the Company’s financial position as of December 31, 2022, 2023 and 2024, and of the Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

APPENDIX I

ACCOUNTANTS’ REPORT

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-3 have been made.

Dividends

We refer to Note 16 to the Historical Financial Information which states that no dividend was declared or paid by the Company and its subsidiaries in respect of the Track Record Period.

[Deloitte Touche Tohmatsu]
Certified Public Accountants

Hong Kong
[Date]

APPENDIX I

ACCOUNTANTS’ REPORT

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with IFRS Accounting Standards issued by International Accounting Standards Board (the “IASB”) and were audited by us in accordance with International Standards on Auditing issued by International Auditing and Assurance Standards Board (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.

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	Year ended December 31,		
		2022	2023	2024
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Revenue	6	462,919	482,308	630,130
Cost of sales		<u>(329,274)</u>	<u>(287,136)</u>	<u>(378,598)</u>
Gross profit		133,645	195,172	251,532
Selling and marketing expenses		(126,408)	(117,081)	(139,623)
Administrative expenses		(40,692)	(29,836)	(36,502)
Research and development expenses		(38,430)	(29,540)	(38,795)
Other income	7	7,723	10,417	5,249
Other gains and losses, net	8	(2,305)	1,234	1,500
Impairment losses recognized on non-financial assets		(14,789)	(5,844)	(1,765)
Impairment losses under expected credit loss (“ECL”) model, net of reversal	9	(3,279)	351	(3,109)
Finance costs	10	(2,452)	(1,640)	(2,060)
Changes in fair value of financial liabilities at fair value through profit or loss (“FVTPL”)		64,257	(91,037)	(152,394)
Share of results of associates		<u>—</u>	<u>(9)</u>	<u>(141)</u>
Loss before tax	12	(22,730)	(67,813)	(116,108)
Income tax credit/(expense)	11	<u>21,022</u>	<u>(4,121)</u>	<u>(5,406)</u>
Loss and total comprehensive expense for the year		<u>(1,708)</u>	<u>(71,934)</u>	<u>(121,514)</u>
(Loss)/profit and total comprehensive (expense)/income for the year attributable to:				
Owners of the Company		(1,704)	(71,934)	(122,083)
Non-controlling interests		<u>(4)</u>	<u>—</u>	<u>569</u>
		<u>(1,708)</u>	<u>(71,934)</u>	<u>(121,514)</u>
Loss per share (presented in RMB Yuan)				
Basic	15	(0.08)	(3.29)	(5.55)
Diluted	15	<u>(1.81)</u>	<u>(3.29)</u>	<u>(6.84)</u>

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As of December 31,		
		2022	2023	2024
		RMB’000	RMB’000	RMB’000
Non-current Assets				
Property, plant and equipment	17	14,802	7,411	7,953
Right-of-use assets	18	26,960	23,186	17,846
Intangible assets	19	15,040	7,602	35,477
Deferred tax assets	20	34,955	30,889	25,888
Investments in associates	21	—	1,446	250
Other receivables and prepayments	24	5,436	3,441	2,099
Financial assets at FVTPL	25	4,891	3,386	2,981
Term deposits	27	—	10,000	10,000
Total non-current assets		<u>102,084</u>	<u>87,361</u>	<u>102,494</u>
Current Assets				
Inventories	22	123,710	84,389	154,398
Trade receivables and notes receivable	23	20,908	38,626	51,890
Other receivables and prepayments	24	30,936	19,290	24,096
Financial assets at FVTPL	25	—	—	26,077
Amounts due from related parties	41	—	451	474
Mold assets	26	13,360	9,293	16,274
Restricted bank deposits	27	5,500	—	—
Cash and cash equivalents	27	168,267	230,842	151,280
Total current assets		<u>362,681</u>	<u>382,891</u>	<u>424,489</u>
Current Liabilities				
Trade payables	28	23,877	25,148	20,122
License fees payables	29	14,327	4,406	35,280
Other payables	30	17,448	19,921	23,725
Contract liabilities	6	11,502	13,424	14,582
Lease liabilities	18	23,098	16,517	13,085
Income tax payable		4	55	237
Financial liabilities at FVTPL	31	—	706,778	859,172
Total current liabilities		<u>90,256</u>	<u>786,249</u>	<u>966,203</u>
Net Current Assets/ (Liabilities)		<u>272,425</u>	<u>(403,358)</u>	<u>(541,714)</u>
Total Assets Less Current Liabilities		<u>374,509</u>	<u>(315,997)</u>	<u>(439,220)</u>
Non-current Liabilities				
Lease liabilities	18	16,387	12,100	6,215
License fees payables	29	454	1,910	3,850
Financial liabilities at FVTPL	31	615,741	—	—
Total non-current liabilities		<u>632,582</u>	<u>14,010</u>	<u>10,065</u>
Net Liabilities		<u>(258,073)</u>	<u>(330,007)</u>	<u>(449,285)</u>
Capital and Reserves				
Share capital	32	4,400	4,400	4,400
Reserves		<u>(262,473)</u>	<u>(334,407)</u>	<u>(456,490)</u>
Deficits attributable to owners of the Company		(258,073)	(330,007)	(452,090)
Non-controlling interests		—	—	2,805
Total deficits		<u>(258,073)</u>	<u>(330,007)</u>	<u>(449,285)</u>

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ACCOUNTANTS’ REPORT

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	As of December 31,		
		2022	2023	2024
		RMB’000	RMB’000	RMB’000
Non-current Assets				
Property, plant and equipment	17	12,440	6,808	6,282
Right-of-use assets	18	17,992	16,800	9,763
Intangible assets	19	14,974	7,572	35,477
Deferred tax assets	20	36,192	34,485	30,961
Other receivables and prepayments	24	4,531	2,947	1,666
Investments in associates	21	—	1,446	250
Investments in subsidiaries	43	33,167	33,167	37,413
Amounts due from subsidiaries	41	3,722	106	707
Term deposits	27	—	10,000	10,000
Total non-current assets		<u>123,018</u>	<u>113,331</u>	<u>132,519</u>
Current Assets				
Inventories	22	108,806	74,666	136,595
Trade receivables and notes receivable	23	19,528	36,754	42,910
Other receivables and prepayments	24	24,224	15,117	18,917
Amounts due from subsidiaries	41	56,039	26,031	41,452
Amounts due from related parties	41	—	451	474
Mold assets	26	13,360	9,293	16,274
Restricted bank deposits	27	5,500	—	—
Cash and cash equivalents	27	<u>99,439</u>	<u>199,962</u>	<u>111,777</u>
Total current assets		<u>326,896</u>	<u>362,274</u>	<u>368,399</u>
Current Liabilities				
Trade payables	28	23,866	25,137	18,116
License fees payables	29	14,327	4,406	35,280
Other payables	30	15,517	17,520	19,429
Amount due to a subsidiary	41	—	20,000	—
Contract liabilities		4,160	5,676	6,793
Lease liabilities	18	19,674	12,006	8,525
Financial liabilities at FVTPL	31	—	706,778	859,172
Total current liabilities		<u>77,544</u>	<u>791,523</u>	<u>947,315</u>
Net Current Assets/ (Liabilities)		<u>249,352</u>	<u>(429,249)</u>	<u>(578,916)</u>
Total Assets Less Current Liabilities		<u>372,370</u>	<u>(315,918)</u>	<u>(446,397)</u>
Non-current Liabilities				
Lease liabilities	18	11,049	7,478	1,051
License fees payables	29	454	1,910	3,850
Financial liabilities at FVTPL	31	<u>615,741</u>	<u>—</u>	<u>—</u>
Total non-current liabilities		<u>627,244</u>	<u>9,388</u>	<u>4,901</u>
Net Liabilities		<u>(254,874)</u>	<u>(325,306)</u>	<u>(451,298)</u>
Capital and Reserves				
Share capital	32	4,400	4,400	4,400
Reserves	33	<u>(259,274)</u>	<u>(329,706)</u>	<u>(455,698)</u>
Total deficits		<u>(254,874)</u>	<u>(325,306)</u>	<u>(451,298)</u>

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Paid-in capital	Share capital	Share premium	Other reserve	Share-based payments		Non-controlling interests
					reserve	Accumulated losses	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	Total RMB'000
As of January 1, 2022	905	—	—	(738)	15,002	227	4
Loss and total comprehensive expense for the year	—	—	—	—	—	—	—
Conversion into joint stock limited liability company (Note 32)	(905)	4,400	196,883	(123,242)	(11,996)	(1,704)	(1,708)
Recognition of equity settled share-based payments	—	—	—	—	9,211	—	9,211
Appropriation of statutory reserve	—	—	—	—	—	(5)	—
As of December 31, 2022	—	4,400	196,883	(123,980)	12,217	232	—
Loss and total comprehensive expense for the year	—	—	—	—	—	—	—
Appropriation of statutory reserve	—	—	—	—	—	81	—
As of December 31, 2023	—	4,400	196,883	(123,980)	12,217	313	—
(Loss)/profit and total comprehensive (expense)/income for the year	—	—	—	—	—	—	—
Acquisition of a subsidiary (Note 36)	—	—	—	—	—	—	—
Appropriation of statutory reserve	—	—	—	—	—	235	—
As of December 31, 2024	—	4,400	196,883	(123,980)	12,217	548	2,805

Note: In accordance with the relevant laws of the People’s Republic of China (the “PRC”), the Company and its subsidiaries established in the PRC shall transfer 10% of its profits after income tax to the statutory reserve, except where the reserve balance has reached 50% of the registered capital of the Company and the respective subsidiaries. The reserve can be applied either to set off accumulated losses or to increase capital.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31,		
	Note	2022	2023	2024
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax:		(22,730)	(67,813)	(116,108)
Adjustments for:				
Finance costs		2,452	1,640	2,060
Interest income from rental deposits		(376)	(325)	(226)
Interest income from term deposits		—	(7)	(284)
Fair value losses /(gains) on financial assets at FVTPL		109	305	(203)
Share of results of associates		—	9	141
Bargain purchase gain on acquisition of a subsidiary	36	—	—	(38)
Unrealized profit from downstream transactions with associates		—	45	39
Loss on disposal of property, plant and equipment		353	32	65
Depreciation of property, plant and equipment		14,314	8,174	5,426
Amortization of intangible assets		17,279	14,366	26,833
Depreciation of right-of-use assets		23,632	14,875	15,174
Impairment losses under ECL model, net of reversal		3,279	(351)	3,109
Impairment losses recognized on non-financial assets		14,789	5,844	1,765
Changes in fair value of financial liabilities at FVTPL		(64,257)	91,037	152,394
Gain on early termination and modification of leases		(85)	(1,983)	(1,193)
Foreign exchange gains		(304)	(62)	(146)
Recognition of equity-settled share-based payments		9,211	—	—
Operating cash flows before movements in working capital		(2,334)	65,786	88,808
Decrease/(increase) in inventories		23,259	39,321	(68,775)
Decrease/(increase) in trade and other receivables and prepayments		62,973	(6,103)	(20,929)
(Increase)/decrease in mold assets		(353)	4,067	(6,981)
(Decrease)/increase in trade payables and other payables		(24,480)	4,421	(4,316)
(Decrease)/increase in contract liabilities		(2,580)	1,922	1,158
(Decrease)/increase in license fees payables		(3,979)	496	3,040
Increase in amounts due from related parties of trade nature		—	(451)	(37)
Cash generated from (used in) operations		52,506	109,459	(8,032)
Income tax paid		(6,918)	(4)	(223)
Net cash flows generated from (used in) operating activities		45,588	109,455	(8,255)

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

		Year ended December 31,		
	Note	2022	2023	2024
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments made in associates		—	(1,500)	(430)
Net cash inflow on acquisition of a subsidiary	36	—	—	4,720
Payments for purchase of property, plant and equipment		(8,813)	(2,699)	(5,757)
Purchases of intangible assets		(11,299)	(16,080)	(25,974)
Investment income from structured deposits		—	—	381
Purchases of structured deposits		—	—	(201,000)
Redemption on maturity of structured deposits		—	—	175,000
Refunds from investment in an unlisted company		—	1,200	150
Proceeds from disposal of property, plant and equipment		2	28	66
Placements of term deposits with original maturity over three months		—	(10,000)	—
Payments for rental deposits		(1,253)	(100)	(497)
Refund of rental deposits		437	2,311	2,536
Placement of restricted bank deposits		(5,500)	—	—
Withdrawal of restricted bank deposits		—	5,500	—
		<u>—</u>	<u>5,500</u>	<u>—</u>
Net cash flows used in investing activities		<u>(26,426)</u>	<u>(21,340)</u>	<u>(50,805)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of lease liabilities		(25,466)	(24,153)	(19,250)
Payments for the interest portion of the lease liabilities		(2,004)	(1,449)	(1,020)
Payments of share issue cost for [REDACTED]		—	—	(378)
		<u>—</u>	<u>—</u>	<u>(378)</u>
Net cash flows used in financing activities		<u>(27,470)</u>	<u>(25,602)</u>	<u>(20,648)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS				
		(8,308)	62,513	(79,708)
Cash and cash equivalents at beginning of year		176,271	168,267	230,842
Effect of foreign exchange rate changes		304	62	146
		<u>304</u>	<u>62</u>	<u>146</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR				
		<u>168,267</u>	<u>230,842</u>	<u>151,280</u>

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company formerly known as Beijing Talent Joy Cultural Development Co., Ltd. (北京樂自天成文化發展有限公司), was a limited liability company established in the PRC on July 9, 2012. On June 15, 2022, the Company completed the conversion from a limited liability company to a joint stock limited liability company. The addresses of the registered office and the principal place of business of the Company are set out in the section headed “Corporate Information” to the document.

The Group are principally engaged in the design, development and sales of IP toys.

During the Track Record Period, the Concert Party Group consisting of Mr. Chen Wei, Mr. Huang Jin and Ms. Bai Jie., Ms. Zeng Lihui and Tianjin Tangdi Zhihua Management Consulting Partnership Enterprise (Limited Partnership) (天津棠棣之華管理諮詢合夥企業 (有限合夥)) constitute the Company’s Single Largest Group of Shareholders, the details of which are set out in the section headed “History, Development and Corporate Structures” to this document.

The Historical Financial Information is presented in RMB, which is also the functional currency of the Company and its subsidiaries.

No statutory audited financial statements of the Company have been issued during the Track Record Period as it is incorporated in the jurisdiction where there are no statutory audit requirements.

2. BASIS OF PREPARATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies which conform with IFRS Accounting Standards set out in Note 4. For the purpose of preparation of the Historical Financial Information, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the Historical Financial Information included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance.

As of December 31, 2024, the Group and the Company had net current liabilities of RMB541,714,000 and RMB578,916,000, respectively, and net liabilities of RMB449,285,000 and RMB451,298,000, respectively. The net current liabilities and net liabilities primarily arise from the financial liabilities at FVTPL, i.e. the shares with preferential rights (the “Shares with Preferential Rights”), amounting to RMB859,172,000 as of December 31, 2024, which were classified as current liability. In May 2025, the Company completed the Series C+ Financing and entered into a new shareholders’ agreement with all the shareholders including the Series C+ Investors. Considering the redemption obligation of Share with Preferential Rights has been extended as the redemption date associated with the requirement of qualified [REDACTED] is updated in the new shareholders’ agreement, and also taking into account the expected timetable of listing process, the Directors are of the view that the Company will not be required to be dissolved or liquidated within twelve months from the date of this report.

Taken the above into consideration, and together with cashflow forecast for the twelve months from the date of this report prepared by management of the Group, the Directors are of the opinion that the Group and the Company will have sufficient cash resources to satisfy its future working capital in the next twelve months from the date of this report. Accordingly, the Directors consider that it is appropriate that the Historical Financial Information is prepared on a going concern basis.

3. ADOPTION OF NEW AND AMENDMENTS TO IFRS ACCOUNTING STANDARDS

For the purpose of preparing the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies which conform with IFRS Accounting Standards, which are effective for the accounting period beginning on January 1, 2024, throughout the Track Record Period.

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New and Amendments to IFRS Accounting Standards in issue but not yet effective

At the date of this report, the following new and amendments to IFRS accounting standards have been issued which are not yet effective:

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ¹
Amendments to IAS 21	<i>Lack of Exchangeability</i> ²
Amendments to IFRS 9 and IFRS 7	<i>Amendments to the Classification and Measurement of Financial Instruments</i> ³
Amendments to IFRS 9 and IFRS 7	<i>Contracts Referencing Nature-dependent Electricity</i> ³
Amendments to IFRS Accounting Standards	<i>Annual Improvements to IFRS Accounting Standards – Volume 11</i> ³
IFRS 18	<i>Presentation and Disclosure in Financial Statements</i> ⁴

¹ Effective for annual periods beginning on or after a date to be determined

² Effective for annual periods beginning on or after January 1, 2025

³ Effective for annual periods beginning on or after January 1, 2026

⁴ Effective for annual periods beginning on or after January 1, 2027

The Directors anticipate that the application of all the new and amendments to IFRS Accounting Standards above will have no material impact on the Historical Financial Information in the foreseeable future.

4. MATERIAL ACCOUNTING POLICY INFORMATION

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

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Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the Track Record Period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group’s equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

The identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Conceptual Framework for Financial Reporting* (the “Conceptual Framework”) except for transactions and events within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or HK(IFRIC)-Int 21 *Levies*, in which the Group applies IAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognized.

At acquisition date, if after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary’s net assets in the event of liquidation are initially measured at the non-controlling interests’ proportionate share of the recognized amounts of the acquiree’s identifiable net assets or at fair value.

Investments in subsidiaries

Investments in subsidiaries are stated in the statements of financial position of the Company at cost less accumulated impairment losses, if any.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group’s share of the profit or loss and other comprehensive income of the associate.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognized in the consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue from contracts with customers

Information about the Group’s accounting policies relating to contracts with customers is provided in Note 6.

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ACCOUNTANTS’ REPORT

Leases

The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception of a contract. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Short-term leases

The Group applies the short-term lease recognition exemption to 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 expense on a straight-line basis or another systematic basis over the lease term.

The Group as a lessee

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability; and
- any lease payments made at or before the commencement date.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. Such grants are presented under “other income”.

Employee benefits

Short-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS Accounting Standard requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Retirement benefit costs

Payments to state-managed retirement benefit scheme are recognized as an expense when employees have rendered service entitling them to the contributions.

Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognizes any related restructuring costs.

Share-based payments

Equity-settled share-based payment transactions

Shares granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

Taxation

Income tax expense represents the sum of current and deferred income tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the lease liabilities, and the related assets separately. The Group recognizes a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized and a deferred tax liability for all taxable temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

The Group’s intangible assets are software and licensed intellectual properties (“Licensed IPs”), which are depreciated on a straight-line basis at the following rates per annum:

Software	33.33%
Licensed IPs	Over the period between the commencement date and the end date of the IP authorization as stipulated in the contract

Software is carried at cost less accumulated amortization and impairment losses, with amortization recognized on a straight-line basis over the estimated useful lives of 3 years.

Licensed IPs are carried at cost less accumulated amortization and impairment losses. The historical costs of Licensed IPs are measured at the present values of the fixed minimum payments at the date of purchase of the respective license rights. Amortization of Licensed IPs is recognized on a straight-line basis over the license period which typically ranges from more than one year up to three years. Variable payments related to Licensed IPs that depend on sales are recognized in profit or loss in the period in which the triggering condition occurs.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development expenses

Expenditure on research activities is recognized as an expense in the period in which it is incurred. There were no development expenses capitalized as intangible assets during the Track Record Period.

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Impairment on property, plant and equipment, intangible assets and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, intangible assets and right-of-use assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

- (a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and
- (b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or

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financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

(i) Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below).

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the “other gains and losses, net” line item.

Impairment of financial assets subject to impairment assessment under IFRS 9

The Group performs impairment assessment under ECL model on financial assets (including trade receivables and notes receivable, amounts due from related parties, other receivables, restricted bank deposits, and cash and cash equivalents) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables without significant financing component.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instruments as of the reporting date with the risk of a default occurring on the financial instruments

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as of the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group’s recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with

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the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience and forward-looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward-looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, other receivables and amounts due from related parties where the corresponding adjustment is recognized through a loss allowance account.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortized cost, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as of FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 *Business Combinations* applies, (ii) held for trading or (iii) it is designated as of FVTPL.

For financial liabilities that are designated as of FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to accumulated losses upon derecognition of the financial liability.

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Financial liabilities at amortized cost

Financial liabilities including trade payables, license fees payables and other payables are subsequently measured at amortized cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group’s obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in Note 4, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the coming twelve months.

Key sources of estimation uncertainty

Fair value measurement of financial liabilities at FVTPL

No quoted prices in an active market are available for the Group’s financial liabilities at FVTPL. These financial liabilities were valued by the Directors with the assistance of an independent qualified professional valuer not connected to the Group, which has appropriate qualifications and experience in valuation of similar financial instruments. The fair value of these financial liabilities is established by using valuation techniques as disclosed in Notes 31 and 39. Valuation techniques are certified by the valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make the maximum use of market inputs and rely as little as possible on the Group’s specific data. However, it should be noted that some inputs, such as possibilities under different scenarios such as [REDACTED], liquidation and redemption, or discount for lack of marketability as appropriate, require management estimates. The estimates and assumptions are reviewed periodically by the Directors and adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of financial liabilities at FVTPL. Details of the fair value of financial liabilities at FVTPL are disclosed in Note 31.

Net realizable value of inventories

The Group’s inventories are measured at the lower of cost and net realizable value. The net realizable value of inventories is based on estimated selling prices less any estimation costs to be incurred to completion and costs necessary to make the sale. Where the actual outcome or expectation in future is different from the original estimate, the differences will have an impact on the carrying amounts of inventories and the write-down of inventories in the period in which the estimate has been changed. The Group reassesses the estimation at the end of each reporting period. The carrying amount of inventories is detailed in Note 22.

Impairment of non-financial assets related to self-operated retail stores

The Group assesses whether there are any indicators of impairment for property, plant and equipment and right-of-use assets related to self-operated retail stores at the end of each reporting period. If any such indication exists, the recoverable amount of the

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individual asset or the cash-generating unit (i.e. each self-operated retail store is identified as a cash-generating unit) to which the asset belongs is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount of the individual asset or the cash-generating unit is determined based on the higher of fair value less costs of disposal and value in use. In estimating the aforesaid recoverable amount of the individual asset or the cash-generating unit, management considers all relevant factors, including but not limited to the forecasted sales with reasonable and supportable assumptions to make significant accounting estimations and judgement. The amounts of impairment losses of non-financial assets are disclosed in Note 17 and Note 18.

Provision of ECL for trade receivables

Trade receivables relating to customers with significant doubt on collection of receivables are assessed for ECL individually. In addition, the Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using a provision matrix. The provision rates are based on aging of debtors as groupings of various debtors taking into consideration the Group’s historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group’s trade receivables are disclosed in Note 38.

Deferred tax assets

The recognition of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future, which is a key source of estimation uncertainty. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal or further recognition takes place. The carrying amount of deferred tax assets is detailed in Note 20.

6. REVENUE AND SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision makers (the “CODM”), for the purposes of resource allocation and assessment focuses on revenue analysis by types of goods or services delivered or provided. No other discrete financial information is provided other than the Group’s results and financial position as a whole. Accordingly, the Group has only one operating and reportable segment and no further analysis of this single segment is presented.

The Group’s non-current assets are mostly located in the PRC and most of the Group’s revenue are derived from the PRC during the Track Record Period. During the Track Record Period, there was no revenue derived from transactions with a single external customer amounted to 10% or more of the Group’s revenue.

(a) Disaggregation of revenue from contracts with customers

	Year ended December 31,		
	2022	2023	2024
	RMB’000	RMB’000	RMB’000
Revenue from contracts with customers			
Sales of products			
Direct sales	146,181	168,771	194,757
— Online sales	116,076	128,992	139,219
— Offline sales	30,105	39,779	55,538
Distributor sales	308,571	299,711	420,952
Consignment sales	2,108	9,931	13,428
	456,860	478,413	629,137
Other services	6,059	3,895	993
Total	462,919	482,308	630,130

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	Year ended December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Geographical markets			
Mainland China	427,550	423,743	482,747
Overseas	35,369	58,565	147,383
Total	<u>462,919</u>	<u>482,308</u>	<u>630,130</u>
	Year ended December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Timing of revenue recognition			
At a point in time	456,860	478,413	629,137
Over time	6,059	3,895	993
Total	<u>462,919</u>	<u>482,308</u>	<u>630,130</u>

(b) Accounting policies of revenue recognition

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

The Group primarily derives revenue from sales of products and provision of other services.

Sales of products

For the sales of products, the Group recognizes revenue when the control of the products has been transferred to the Group’s customers.

Direct sales

The Group directly sells its products to customers through the Group’s self-operated online platform, online stores run on third party’s ecommerce platforms and self-operated retail stores during the Track Record Period.

Revenue from direct online sales is recognized when the products are delivered and received by the customers. Revenue from direct offline sales to customers is recognized when the customers take physical possession of and pay for the products in the stores.

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Distributor sales

The Group sells products to distributors during the Track Record Period, who bear inventory risk before the specified products are resold to their customers. The Group’s distributors typically have extensive retail or distribution network covering retail outlets at desirable locations, which typically have high consumer traffic. The distributors are responsible for selling and fulfilling all obligations in their sales contracts with their customers, including delivering the products and providing customer support. Therefore, the Group determines that the distributors are the Group’s customers.

Revenue from distributor sales is recognized when control of the products has been transferred, being when the products have been delivered to the distributors’ warehouses or specified locations and accepted by the distributors.

Consignment sales

The consignment sales dealers have not obtained control of the products when the products have been delivered to the dealers in consignment arrangements. Revenue from consignment sales is recognized by the Group when the products are sold to end-consumers from consignment sales dealers.

Other services

For other services, which include IP licensing services, advertising services, and others, revenue is recognized over time in accordance with the relevant agreements since the customers simultaneously receive and consume the benefits provided by the Group.

Variable consideration

Revenue is recognized when control of goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled. Variable consideration, such as sales rebates, is estimated using the expected value method and is included in the transaction price only to the extent that it is highly probable that a significant reversal of revenue will not occur.

At the end of each reporting period, the Group reviews and updates its estimates of variable consideration, to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Refund liabilities

For a sale of products with a right of return, the Group accounts for the potential sales returns as a variable consideration under IFRS 15. The amount of revenue recognized is adjusted to reflect the expected returns, and a corresponding refund liability and asset for the right to recover goods are recognized.

Customer loyalty program

The Group operates a loyalty program through which customers accumulate points on purchases of products that entitle them to discounts on future purchases. The promise to provide the discount to the customer is therefore a separate performance obligation.

The transaction price is allocated between the product and the points on a relative stand-alone selling price basis. The stand-alone selling price per point is estimated based on the discount to be given when the points are redeemed by the customer and the likelihood of redemption, as evidenced by the Group’s historical experience. A contract liability is recognized for revenue relating to the loyalty points at the time of the initial sales transaction. Revenue from the loyalty points is recognized when the points are redeemed by the customer. Revenue for points that are not expected to be redeemed is recognized in proportion to the pattern of rights exercised by customers.

(c) Transaction price allocated to the remaining performance obligation for contracts with customers

Except for IP licensing service contracts, all other contracts with customers are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed. For IP licensing service contracts, the transaction price allocated to the remaining performance obligations as of December 31, 2022, 2023 and 2024 is immaterial.

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(d) Contract liabilities

Contract liabilities represent the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration from the customer before the performance obligation is satisfied. These amounts are recognized as revenue when the Group satisfies the performance obligation by transferring the promised goods or services.

The contract liabilities primarily represented the advances received from customers for sales of goods and provision of other services, as well as contract liabilities arising from the Group’s loyalty program, as of December 31, 2022, 2023 and 2024.

	As of December 31,		
	2022	2023	2024
	RMB’000	RMB’000	RMB’000
Advanced payments received from customers	10,541	12,071	12,946
Customer loyalty program (<i>Note</i>)	961	1,353	1,636
	<u>11,502</u>	<u>13,424</u>	<u>14,582</u>

Note: The Group’s customer loyalty points expire within one year upon the initial sales transaction and can be redeemed anytime at customers’ discretion before expiration.

As of January 1, 2022, contract liabilities amounted to RMB14,082,000.

The following table shows the amounts of revenue recognized in the respective reporting period that were included in the contract liabilities at the beginning of the reporting period:

	Year ended December 31,		
	2022	2023	2024
	RMB’000	RMB’000	RMB’000
Revenue recognized that was included in contract liabilities at the beginning of the year:	<u>14,058</u>	<u>11,467</u>	<u>12,912</u>

7. OTHER INCOME

An analysis of other income is as follows:

	Year ended December 31,		
	2022	2023	2024
	RMB’000	RMB’000	RMB’000
Interest income from:			
— Bank deposits and term deposits	1,187	2,620	2,023
— Rental deposits	376	325	226
Government grants (<i>Note</i>)	5,289	7,345	2,642
Others	871	127	358
	<u>7,723</u>	<u>10,417</u>	<u>5,249</u>

Note: The amounts represent government grants related to income which are received from the local government in the PRC for the contribution to the local economic growth. These grants are recognized in the consolidated statements of profit or loss and other comprehensive income upon the receipt. There were no unfulfilled conditions or contingencies relating to these government grants at the end of each of the reporting period during the Track Record Period.

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8. OTHER GAINS AND LOSSES, NET

An analysis of other gains and losses, net, is as follows:

	Year ended December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Fair value (losses)/gains on financial assets at FVTPL:			
— Structured deposits	—	—	458
— An unlisted company	(109)	(305)	(255)
(Loss)/gain on foreign exchange, net	(478)	60	196
Donation	(612)	(282)	—
Loss on disposal of property, plant and equipment	(353)	(32)	(65)
Gain on early termination and modification of leases	85	1,983	1,193
Bargain purchase gain on acquisition of a subsidiary (Note 36)	—	—	38
Others	(838)	(190)	(65)
	<u>(2,305)</u>	<u>1,234</u>	<u>1,500</u>

9. IMPAIRMENT LOSSES UNDER ECL MODEL, NET OF REVERSAL

	Year ended December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Impairment losses, net of reversals, recognized on:			
— Trade receivables	2,039	(343)	3,058
— Other receivables	1,240	(8)	51
	<u>3,279</u>	<u>(351)</u>	<u>3,109</u>

10. FINANCE COSTS

	Year ended December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Interests on license fees payables	448	191	1,040
Interests on lease liabilities	2,004	1,449	1,020
	<u>2,452</u>	<u>1,640</u>	<u>2,060</u>

11. INCOME TAX (CREDIT)/EXPENSE

The income tax (credit)/expense of the Group is analyzed as follows:

	Year ended December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Current tax	5	55	405
Deferred tax (Note 20)	(21,027)	4,066	5,001
Total	<u>(21,022)</u>	<u>4,121</u>	<u>5,406</u>

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PRC Corporate Income Tax

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the statutory tax rate of the Company and its PRC subsidiaries is 25% during the Track Record Period.

Certain subsidiaries have been accredited as small and micro enterprises by the relevant tax authorities. From January 1, 2021 to December 31, 2022, subject to certain criteria, the portion of annual taxable income amount of a small profit enterprise which does not exceed RMB1 million shall be computed at a reduced rate of 12.5% as taxable income amount, and be subject to enterprise income tax at 20% tax rate; from January 1, 2023 to December 31, 2027, subject to certain criteria, the portion of annual taxable income amount of a small profit enterprise shall be computed at a reduced rate of 25% as taxable income amount, and be subject to enterprise income tax at 20% tax rate.

The Group is entitled to claim 175%, 200% of qualified research and development expenses so incurred as tax deductible expenses when determining its assessable profits for that year (“Super Deduction”) during the period from January 1, 2022 to September 30, 2022 and after October 1, 2022, respectively, pursuant to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC.

Hong Kong Profits Tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Track Record Period, while the subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first 2,000,000 Hong Kong Dollars (“HKD”) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5% for each year during the Track Record Period.

The income tax (credit)/expense for the Track Record Period can be reconciled to the loss before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended December 31,		
	2022	2023	2024
	RMB’000	RMB’000	RMB’000
Loss before tax	(22,730)	(67,813)	(116,108)
Tax at the statutory tax rate of 25%	(5,683)	(16,953)	(29,027)
Tax effect of expenses not deductible for tax purpose (<i>Note i</i>)	2,582	22,907	38,522
Tax effect of income not taxable for tax purpose (<i>Note ii</i>)	(16,064)	—	—
Additional deductible items under the EIT Law (<i>Note iii</i>)	(5,020)	(4,019)	(4,375)
Tax effect of tax losses not recognized and utilization of tax losses not recognized previously	2,543	1,451	1,543
Tax effect of deductible temporary differences not recognized and utilization of deductible temporary differences not recognized previously	454	894	(667)
Tax effect of differential tax rates	166	(159)	(590)
Total	(21,022)	4,121	5,406

Notes:

- i* The expenses not deductible for tax purpose mainly includes the share-based payment for the year ended December 31, 2022, and the fair value losses of Shares with Preferential Rights for the years ended December 31, 2023 and 2024.
- ii* The income not taxable for tax purpose consists of the fair value gains of Shares with Preferential Rights for the year ended December 31, 2022.
- iii* Additional deductible items under the EIT Law include Super Deduction for research and development expenses and additional deduction for salary paid to disabled individuals.

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12. LOSS BEFORE TAX

The Group’s loss before tax has been arrived at after charging (crediting):

	Year ended December 31,		
	2022	2023	2024
	RMB’000	RMB’000	RMB’000
Cost of inventories sold	251,429	218,218	275,097
Including: write-down/(reversal) of inventories to net realizable value	9,725	(3,477)	(1,309)
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Employee benefit expenses (including directors’ emoluments as set out in Note 13)			
— Salaries, allowances and other benefits	81,264	81,082	94,783
— Equity-settled share-based payments	9,211	—	—
— Retirement benefits	8,185	8,087	10,273
Total employee benefit expenses	98,660	89,169	105,056
Depreciation of property, plant and equipment	14,314	8,174	5,426
Depreciation of right-of-use assets	23,632	14,875	15,174
Amortization of intangible assets	17,279	14,366	26,833
Total depreciation and amortization	55,225	37,415	47,433
Impairment losses recognized on right-of-use assets	9,985	4,257	1,352
Impairment losses recognized on property, plant and equipment	4,804	1,587	413
Changes in fair value of financial liabilities at FVTPL	64,257	(91,037)	(152,394)

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13. DIRECTORS’ AND CHIEF EXECUTIVE AND SUPERVISORS’ EMOLUMENTS

The emoluments paid or payable to the executive directors, non-executive directors, independent non-executive directors and supervisors of the Company, during the Track Record Period disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, are as follows:

Year ended December 31, 2022

	Salaries, allowances, and other benefits	Performance related bonuses	Retirement benefits	Equity -settled share-based payments	Total remuneration
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Executive directors:					
Mr. Chen Wei (Note i) (Chief executive)	1,264	—	58	5,979	7,301
Mr. Huang Jin (Note i)	1,264	—	58	—	1,322
Ms. Bai Jie (Note i)	664	—	58	—	722
Sub-total	3,192	—	174	5,979	9,345
Non-executive directors:					
Ms. Wang Xin (Note ii)	—	—	—	—	—
Mr. Shi Zhan (Note ii)	—	—	—	—	—
Mr. Yi Bo (Note ii)	—	—	—	—	—
Sub-total	—	—	—	—	—
Independent non-executive directors:					
Ms. Wang Shiyong (Note iii)	42	—	—	—	42
Mr. Zhang Liang (Note iii)	42	—	—	—	42
Ms. Zhang Tao (Note iii)	42	—	—	—	42
Sub-total	126	—	—	—	126
Supervisors:					
Mr. Cai Ming (Note iv)	724	—	44	436	1,204
Ms. Yu Xi (Note iv)	198	—	26	—	224
Mr. Zheng Hongsheng (Note iv)	362	—	44	—	406
Sub-total	1,284	—	114	436	1,834
Total	4,602	—	288	6,415	11,305

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Year ended December 31, 2023

	Salaries, allowances, and other benefits	Performance related bonuses	Retirement benefits	Total remuneration
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Executive directors:				
Mr. Chen Wei (Note i) (Chief executive)	1,280	30	63	1,373
Mr. Huang Jin (Note i)	1,271	30	63	1,364
Ms. Bai Jie (Note i)	670	15	63	748
Sub-total	3,221	75	189	3,485
Non-executive directors:				
Ms. Wang Xin (Note ii)	—	—	—	—
Mr. Shi Zhan (Note ii)	—	—	—	—
Mr. Yi Bo (Note ii)	—	—	—	—
Sub-total	—	—	—	—
Independent non-executive directors:				
Ms. Wang Shiyang (Note iii)	60	—	—	60
Mr. Zhang Liang (Note iii)	60	—	—	60
Ms. Zhang Tao (Note iii)	60	—	—	60
Sub-total	180	—	—	180
Supervisors:				
Mr. Cai Ming (Note iv)	984	—	63	1,047
Ms. Yu Xi (Note iv)	287	—	36	323
Mr. Zheng Hongsheng (Note iv)	129	—	15	144
Sub-total	1,400	—	114	1,514
Total	4,801	75	303	5,179

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Year ended December 31, 2024

	Salaries, allowances, and other benefits	Performance related bonuses	Retirement benefits	Total remuneration
	RMB’000	RMB’000	RMB’000	RMB’000
Executive directors:				
Mr. Chen Wei (Note i) (Chief executive)	1,285	—	66	1,351
Mr. Huang Jin (Note i)	1,277	—	66	1,343
Ms. Bai Jie (Note i)	674	—	66	740
Sub-total	3,236	—	198	3,434
Non-executive directors:				
Ms. Wang Xin (Note ii)	—	—	—	—
Mr. Shi Zhan (Note ii)	—	—	—	—
Mr. Yi Bo (Note ii)	—	—	—	—
Sub-total	—	—	—	—
Independent non-executive directors:				
Ms. Wang Shiyong (Note iii)	60	—	—	60
Mr. Zhang Liang (Note iii)	60	—	—	60
Ms. Zhang Tao (Note iii)	60	—	—	60
Sub-total	180	—	—	180
Supervisors:				
Mr. Cai Ming (Note iv)	1,042	—	66	1,108
Ms. Yu Xi (Note iv)	304	—	38	342
Mr. Zheng Hongsheng (Note iv)	—	—	—	—
Sub-total	1,346	—	104	1,450
Total	4,762	—	302	5,064

Notes:

- i Mr. Chen Wei was appointed as an executive director of the Company in July 2012.
Mr. Huang Jin was appointed as an executive director of the Company in January, 2018.
Ms. Bai Jie was appointed as an executive director of the Company in July 2017.
- ii Ms. Wang Xin, Mr. Shi Zhan and Mr. Yi Bo were appointed as non-executive directors of the Company in April 2022.
- iii Ms. Wang Shiyong, Mr. Zhang Liang and Ms. Zhang Tao were appointed as independent non-executive directors of the Company in April 2022.
- iv Mr. Cai Ming, Ms. Yu Xi and Mr. Zheng Hongsheng were appointed as supervisors of the Company in April 2022.

The executive directors and supervisors’ emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. Performance related bonuses are determined based on the Group’s performance, performance of the relevant individuals within the Group and comparable market statistics. The emoluments were borne by the Company during the Track Record Period. The independent non-executive directors’ emoluments shown above were mainly for their services as the directors of the Company.

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Except for the emoluments disclosed above, there is no other benefits offered to the Directors and supervisors.

There was no arrangement under which executive directors, non-executive directors, independent non-executive directors and supervisors of the Company waived or agreed to waive any remuneration during the Track Record Period.

14. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the Track Record Period included three, three and three directors and supervisors for the years ended December 31, 2022, 2023 and 2024, respectively, details of whose remuneration are set out in Note 13 above. Details of the remuneration of the remaining two, two, and two highest paid employees who are not directors nor supervisors of the Company for the years ended December 31, 2022, 2023 and 2024, respectively, are as follows:

	Year ended December 31,		
	2022	2023	2024
	RMB’000	RMB’000	RMB’000
Salaries, allowances and other benefits	1,603	1,976	1,819
Performance related bonuses	—	49	600
Retirement benefits	116	116	132
Equity-settled share-based payments expense	4,252	—	—
	<u>5,971</u>	<u>2,141</u>	<u>2,551</u>

The number of employees whose remuneration fell within the following band is as follows:

	Year ended December 31,		
	2022	2023	2024
	No. of employees	No. of employees	No. of employees
HKD1,000,001 to HKD1,500,000	—	2	1
HKD1,500,001 to HKD2,000,000	1	—	1
HKD5,000,001 to HKD5,500,000	1	—	—
	<u>2</u>	<u>2</u>	<u>2</u>

During the Track Record Period, no emoluments were paid by the Group to any of the executive directors, non-executive directors, independent non-executive directors and supervisors of the Company or the five highest paid individual employees as an inducement to join or upon joining the Group or as compensation for loss of office.

15. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	Year ended December 31,		
	2022	2023	2024
	RMB’000	RMB’000	RMB’000
Loss for the year attributable to the owners of the Company	(1,704)	(71,934)	(122,083)
Effect of dilutive potential ordinary shares:			
Adjustment to the fair value gain of Shares with Preferential Rights issued in Series A Financing and Series A+ Financing	76,315	—	—
Adjustment to the fair value gain of Shares with Preferential Rights issued for Series C Financing	—	—	47,649
Loss for the purpose of diluted loss per share	<u>(78,019)</u>	<u>(71,934)</u>	<u>(169,732)</u>

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	Year ended December 31,		
	2022	2023	2024
	’000	’000	’000
Weighted average number of ordinary shares for the purpose of basic loss per share	21,880	21,880	21,880
Effect of dilutive potential ordinary shares:			
Shares with Preferential Rights issued in Series A Financing and Series A+ Financing	21,208	—	—
Shares with Preferential Rights issued in Series C Financing	—	—	2,925
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u>43,088</u>	<u>21,880</u>	<u>24,805</u>

The Company was converted into a joint stock limited liability company and issued approximately 4,400,000 ordinary shares without preferential rights with the par value of RMB1 each on June 15, 2022. The weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share during the Track Record Period has been determined on the assumptions that the Company’s conversion into joint stock limited liability company and the capitalization issue of shares as set out both in Note 44 and “History, Development and Corporate Structures” section of the document had been completed on/effective since January 1, 2022.

The computation of diluted loss per share for the year ended December 31, 2022 has not taken into consideration the potential effect of the Shares with Preferential Rights issued in Series B Financing and Series C Financing as the relevant effect was anti-dilutive.

The computation of diluted loss per share for the year ended December 31, 2023 has not taken into consideration the potential effect of all the Shares with Preferential Rights at December 31, 2023 as the relevant effect was anti-dilutive.

The computation of diluted loss per share for the year ended December 31, 2024 has not taken into consideration the potential effect of the Shares with Preferential Rights issued in Series A, Series A+ and Series B Financing as the relevant effect was anti-dilutive.

16. DIVIDENDS

No dividend has been paid or declared by the Group during the Track Record Period.

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17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Electronic equipment	Office furniture	FRP display stands	Handling equipment	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Note)			
Cost						
At January 1, 2022	4,507	3,561	1,094	554	25,852	35,568
Additions	2,100	8	438	—	5,779	8,325
Disposals	(213)	(252)	(46)	—	(595)	(1,106)
At December 31, 2022	6,394	3,317	1,486	554	31,036	42,787
Additions	1,604	—	68	—	758	2,430
Disposals	(295)	—	(18)	—	(7,179)	(7,492)
At December 31, 2023	7,703	3,317	1,536	554	24,615	37,725
Additions	3,515	30	208	—	2,671	6,424
Acquired on acquisition of a subsidiary (note 36)	88	—	—	—	—	88
Disposals	(118)	—	(520)	—	(7,859)	(8,497)
At December 31, 2024	11,188	3,347	1,224	554	19,427	35,740
Depreciation and impairment						
At January 1, 2022	(1,478)	(743)	(106)	(73)	(7,218)	(9,618)
Provided for the year	(1,409)	(652)	(629)	(109)	(11,515)	(14,314)
Impairment loss recognized in profit or loss	—	—	—	—	(4,804)	(4,804)
Disposals	94	40	22	—	595	751
At December 31, 2022	(2,793)	(1,355)	(713)	(182)	(22,942)	(27,985)
Provided for the year	(1,581)	(619)	(599)	(109)	(5,266)	(8,174)
Impairment loss recognized in profit or loss	—	—	—	—	(1,587)	(1,587)
Disposals	237	—	16	—	7,179	7,432
At December 31, 2023	(4,137)	(1,974)	(1,296)	(291)	(22,616)	(30,314)
Provided for the year	(2,098)	(554)	(124)	(109)	(2,541)	(5,426)
Impairment loss recognized in profit or loss	—	—	—	—	(413)	(413)
Disposals	40	—	467	—	7,859	8,366
At December 31, 2024	(6,195)	(2,528)	(953)	(400)	(17,711)	(27,787)
Carrying values						
At December 31, 2022	3,601	1,962	773	372	8,094	14,802
At December 31, 2023	3,566	1,343	240	263	1,999	7,411
At December 31, 2024	4,993	819	271	154	1,716	7,953

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The above items of property, plant and equipment, after taking into account the residual value, are depreciated on a straight-line basis at the following rates per annum:

Electronic equipment	31.67%
Office furniture	19.00% — 47.50%
Fiberglass reinforced plastic(“FRP”) display stands	19.00% — 47.50%
Handling equipment	19.00%
Leasehold improvements	Over the shorter of the expected life of leasehold improvement or the lease term

Note : The Group deploys FRP display stands within its retail stores to showcase and promote products. These display stands are anticipated to have a useful life that extends beyond one year.

The Company

	Electronic equipment	Office furniture	FRP display stands	Handling equipment	Leasehold improvements	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note)</i>					
Cost						
At January 1, 2022	4,488	3,561	1,094	554	25,852	35,549
Additions	2,013	8	350	—	3,249	5,620
Disposals	(213)	(252)	(46)	—	(595)	(1,106)
At December 31, 2022	6,288	3,317	1,398	554	28,506	40,063
Additions	1,604	—	68	—	233	1,905
Disposals	(286)	—	(18)	—	(7,179)	(7,483)
At December 31, 2023	7,606	3,317	1,448	554	21,560	34,485
Additions	3,202	30	77	—	357	3,666
Disposals	(52)	—	(432)	—	(5,530)	(6,014)
At December 31, 2024	10,756	3,347	1,093	554	16,387	32,137
Depreciation and impairment						
At January 1, 2022	(1,474)	(743)	(106)	(73)	(7,218)	(9,614)
Provided for the year	(1,395)	(652)	(611)	(109)	(11,189)	(13,956)
Impairment loss recognized in profit or loss	—	—	—	—	(4,804)	(4,804)
Disposals	94	40	22	—	595	751
At December 31, 2022	(2,775)	(1,355)	(695)	(182)	(22,616)	(27,623)
Provided for the year	(1,549)	(619)	(557)	(109)	(4,452)	(7,286)
Impairment loss recognized in profit or loss	—	—	—	—	(196)	(196)
Disposals	233	—	16	—	7,179	7,428
At December 31, 2023	(4,091)	(1,974)	(1,236)	(291)	(20,085)	(27,677)
Provided for the year	(1,986)	(554)	(99)	(109)	(1,351)	(4,099)
Impairment loss recognized in profit or loss	—	—	—	—	(40)	(40)
Disposals	30	—	401	—	5,530	5,961
At December 31, 2024	(6,047)	(2,528)	(934)	(400)	(15,946)	(25,855)
Carrying values						
At December 31, 2022	3,513	1,962	703	372	5,890	12,440
At December 31, 2023	3,515	1,343	212	263	1,475	6,808
At December 31, 2024	4,709	819	159	154	441	6,282

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18. LEASE

The Group as a lessee

(a) Right-of-use assets

The carrying amounts of the Group’s right-of-use assets and the movements during the Track Record Period are as follows:

	Year ended December 31,		
	2022	2023	2024
	RMB’000	RMB’000	RMB’000
Offices, warehouses and retail stores			
Carrying amount at the beginning of the year	47,692	26,960	23,186
Additions	13,971	18,746	11,186
Early termination and modification of leases (<i>Note</i>)	(1,086)	(3,388)	—
Impairment loss recognized in profit or loss	(9,985)	(4,257)	(1,352)
Depreciation charged during the year	(23,632)	(14,875)	(15,174)
Carrying amount at the end of the year	<u>26,960</u>	<u>23,186</u>	<u>17,846</u>

Note: During the years ended December 31, 2022, 2023 and 2024, the Group early terminated and modified leases with the lessors. The Group derecognized the right-of-use assets of RMB1,086,000, RMB3,388,000 and nil, lease liabilities of RMB1,155,000, RMB5,252,000 and RMB1,155,000, resulting in gains of RMB85,000, RMB1,983,000 and RMB1,193,000 after consideration of refunds of rental deposits, respectively.

	Year ended December 31,		
	2022	2023	2024
	RMB’000	RMB’000	RMB’000
Expense relating to short-term leases	1,339	2,249	3,853
Total cash outflow for leases	<u>28,809</u>	<u>27,851</u>	<u>24,123</u>

For the Track Record Period, the Group leased various offices, warehouses and retail stores for its operations. Leases contracts are entered into for fixed term of 1 to 5 years.

The Group regularly entered into short-term leases for pop-up stores and equipment. As of December 31, 2022, 2023 and 2024, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

The lease contracts do not impose any covenants other than the security interests in the leased assets that are held by the lessors. Leased assets may not be used as security for borrowing purposes.

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(b) Lease liabilities

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Lease liabilities payable:			
Within one year	23,098	16,517	13,085
Within a period of more than one year but not exceeding two years	11,890	9,716	3,825
Within a period of more than two years but not exceeding five years	4,497	2,384	2,390
	<u>39,485</u>	<u>28,617</u>	<u>19,300</u>
Less: Amounts due for settlement within 12 months shown under current liabilities	<u>23,098</u>	<u>16,517</u>	<u>13,085</u>
Amounts due for settlement after 12 months shown under non-current liabilities	<u>16,387</u>	<u>12,100</u>	<u>6,215</u>

The Group’s incremental borrowing rates applied to lease liabilities ranged from 3.95% to 4.65%, from 3.65% to 4.65%, and from 3.30% to 4.65% per annum as of December 31, 2022, 2023 and 2024, respectively.

The Company as a lessee

(a) Right-of-use assets

The carrying amounts of the Company’s right-of-use assets and the movements during the Track Record Period are as follows:

	Year ended December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Office premises and buildings			
Carrying amount at the beginning of the year	47,692	17,992	16,800
Additions	3,877	13,487	4,485
Early termination of leases (Note)	(1,086)	(1,986)	—
Impairment loss recognized in profit or loss	(9,985)	(1,013)	(398)
Depreciation charged during the year	(22,506)	(11,680)	(11,124)
Carrying amount at the end of the year	<u>17,992</u>	<u>16,800</u>	<u>9,763</u>

Note: During the years ended December 31, 2022, 2023 and 2024, the Company early terminated leases with the lessors. The Company derecognized the right-of-use assets of RMB1,086,000, RMB1,986,000 and nil, lease liabilities of RMB1,155,000, RMB4,349,000, and nil, resulting in gains of RMB85,000, RMB1,718,000 and nil after consideration of refund of rental deposits separately.

	Year ended December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Expense relating to short-term leases	796	1,370	3,304
Total cash outflow for leases	<u>26,907</u>	<u>22,690</u>	<u>18,221</u>

For the Track Record Period, the Company leased various office premises and buildings for its operations. Leases contracts are entered into for fixed term of 1 to 5 years.

The lease contracts do not impose any covenants other than the security interests in the leased assets that are held by the lessors. Leased assets may not be used as security for borrowing purposes.

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(b) *Lease liabilities*

	Year ended December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Lease liabilities payable:			
Within one year	19,674	12,006	8,525
Within a period of more than one year but not exceeding two years	8,468	6,571	1,051
Within a period of more than two years but not exceeding five years	2,581	907	—
	<u>30,723</u>	<u>19,484</u>	<u>9,576</u>
Less: Amounts due for settlement within 12 months shown under current liabilities	<u>19,674</u>	<u>12,006</u>	<u>8,525</u>
Amounts due for settlement after 12 months shown under non-current liabilities	<u>11,049</u>	<u>7,478</u>	<u>1,051</u>

The Company’s incremental borrowing rates applied to lease liabilities range from 3.95% to 4.65%, from 3.65% to 4.65%, and from 3.30% to 4.65% per annum as of December 31, 2022, 2023 and 2024, respectively.

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19. INTANGIBLE ASSETS

The Group

	Licensed IPs	Software	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
	<i>(Note)</i>		
Cost			
At January 1, 2022	20,832	585	21,417
Additions	20,955	159	21,114
Termination of license agreements	(7,566)	—	(7,566)
At December 31, 2022	34,221	744	34,965
Additions	6,730	198	6,928
Termination of license agreements	(5,080)	—	(5,080)
At December 31, 2023	35,871	942	36,813
Additions	54,107	601	54,708
Termination of license agreements	(1,432)	—	(1,432)
At December 31, 2024	88,546	1,543	90,089
Accumulated amortization			
At January 1, 2022	(9,775)	(437)	(10,212)
Amortization charge	(17,153)	(126)	(17,279)
Termination of license agreements	7,566	—	7,566
At December 31, 2022	(19,362)	(563)	(19,925)
Amortization charge	(14,172)	(194)	(14,366)
Termination of license agreements	5,080	—	5,080
At December 31, 2023	(28,454)	(757)	(29,211)
Amortization charge	(26,587)	(246)	(26,833)
Termination of license agreements	1,432	—	1,432
At December 31, 2024	(53,609)	(1,003)	(54,612)
Carrying values			
At December 31, 2022	14,859	181	15,040
At December 31, 2023	7,417	185	7,602
At December 31, 2024	34,937	540	35,477

Note: The amounts represent the license rights obtained by the Group in accordance with the respective license agreements. Upon initial recognition, the Licensed IPs are recognized at the present values of the entire fixed minimum payments for acquiring the Licensed IPs with the corresponding amounts recognized as license fees payables.

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The Company

	Licensed IPs	Software	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Cost			
At January 1, 2022	20,743	529	21,272
Additions	20,929	159	21,088
Termination of license agreements	(7,566)	—	(7,566)
At December 31, 2022	34,106	688	34,794
Additions	6,730	198	6,928
Termination of license agreements	(5,080)	—	(5,080)
At December 31, 2023	35,756	886	36,642
Additions	54,131	601	54,732
Termination of license agreements	(1,432)	—	(1,432)
At December 31, 2024	88,455	1,487	89,942
Accumulated amortization			
At January 1, 2022	(9,764)	(407)	(10,171)
Amortization charge	(17,115)	(100)	(17,215)
Termination of license agreements	7,566	—	7,566
At December 31, 2022	(19,313)	(507)	(19,820)
Amortization charge	(14,136)	(194)	(14,330)
Termination of license agreements	5,080	—	5,080
At December 31, 2023	(28,369)	(701)	(29,070)
Amortization charge	(26,581)	(246)	(26,827)
Termination of license agreements	1,432	—	1,432
At December 31, 2024	(53,518)	(947)	(54,465)
Carrying values			
At December 31, 2022	14,793	181	14,974
At December 31, 2023	7,387	185	7,572
At December 31, 2024	34,937	540	35,477

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20. DEFERRED TAX ASSETS/LIABILITIES

The Group

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for the financial reporting purposes:

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Deferred tax assets	43,804	38,442	29,021
Deferred tax liabilities	(8,849)	(7,553)	(3,133)
	<u>34,955</u>	<u>30,889</u>	<u>25,888</u>

The movements in deferred tax assets and deferred tax liabilities during the years ended December 31, 2022, 2023 and 2024 are as follows:

	ECL provision	Impairment of right-of use assets and property, plant and equipment	Write down of inventories to net realizable value	Tax losses	Lease liabilities	Right- of-use assets	Refund liabilities and provision	Unrealized profit on inventories	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2022	332	1,771	9,992	1,148	13,072	(13,332)	945	—	13,928
Credit (charge) to profit or loss	560	3,697	2,214	15,625	(4,953)	4,491	(615)	8	21,027
At December 31, 2022	892	5,468	12,206	16,773	8,119	(8,841)	330	8	34,955
(Charge)credit to profit or loss	(92)	(1,169)	(656)	(807)	(2,798)	1,297	151	8	(4,066)
At December 31, 2023	800	4,299	11,550	15,966	5,321	(7,544)	481	16	30,889
Credit (charge) to profit or loss	366	(3,898)	(364)	(3,568)	(2,467)	4,423	132	375	(5,001)
At December 31, 2024	1,166	401	11,186	12,398	2,854	(3,121)	613	391	25,888

Deferred tax assets have not been recognized in respect of the following items:

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Tax losses	10,173	15,976	22,148
Deductible temporary differences	2,606	6,181	3,512
	<u>12,779</u>	<u>22,157</u>	<u>25,660</u>

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The unrecognized tax losses with expiry dates are disclosed in the following table:

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
2027	10,173	7,247	7,246
2028	—	8,729	6,170
2029	—	—	8,732
Total	10,173	15,976	22,148

The Company

For the purpose of presentation in the Company’s statements of financial position, deferred tax assets and liabilities should be offset. The following is the analysis of the deferred tax balances for the financial reporting purposes:

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Deferred tax assets	44,603	41,589	33,645
Deferred tax liabilities	(8,411)	(7,104)	(2,684)
	36,192	34,485	30,961

The movements in deferred tax assets and deferred tax liabilities during the years ended December 31, 2022, 2023 and 2024 are as follows:

	ECL provision	Impairment of right-of-use assets and property, plant and equipment	Write down of inventories to net realizable value	Tax losses	Lease liabilities	Right-of-use assets	Refund liabilities and provision	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2022	3,763	1,771	6,358	—	13,072	(13,332)	945	12,577
Credit (charge) to profit or loss	3,227	3,697	2,613	15,155	(5,391)	4,929	(615)	23,615
At December 31, 2022	6,990	5,468	8,971	15,155	7,681	(8,403)	330	36,192
Credit (charge) to profit or loss	1,698	(1,169)	(587)	(299)	(2,810)	1,309	151	(1,707)
At December 31, 2023	8,688	4,299	8,384	14,856	4,871	(7,094)	481	34,485
Credit (charge) to profit or loss	223	(3,904)	1,485	(3,405)	(2,477)	4,423	131	(3,524)
At December 31, 2024	8,911	395	9,869	11,451	2,394	(2,671)	612	30,961

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As of December 31, 2022, 2023 and 2024, the Company has unused tax losses arising in the PRC of RMB60,620,000, RMB59,427,000, and RMB48,266,000, respectively, which are available for offset against future profits. Since the Company is expected to have sufficient taxable profits to utilize all the unused tax losses and deductible temporary differences, deferred tax assets have been recognized in respect of tax losses and deductible temporary differences.

21. INVESTMENTS IN ASSOCIATES

The Group and the Company

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Investments in associates	—	1,446	250

Details of the associates of the Group and the Company at the end of each reporting period during the Track Record Period are as follows:

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Cost of investments in associates	—	1,500	430
Share of results of associates	—	(9)	(141)
Unrealized profit from downstream transactions	—	(45)	(39)
	—	1,446	250

Name of associates	Place of incorporation and principal place of business	Principal activities	Proportion of ownership interest and voting rights held by the Group As of December 31,		
			2022	2023	2024
			%	%	%
Zhiwu Shengyuan(a)	PRC	Sales of toys	N/A	30	N/A
Wu'er Rumeng(b)	PRC	Sales of toys	N/A	N/A	43

(a) Zhiwu Shengyuan (Huzhou) Trading Co., Ltd* (致物盛源(湖州)商贸有限公司, the “Zhiwu Shengyuan”) was incorporated and invested by the Company in November 2023. In January 2024, the Group entered into an agreement with Zhiwu Shengyuan and its other shareholders, pursuant to which the Group acquired additional 25% of equity interest in Zhiwu Shengyuan. As a result, Zhiwu Shengyuan became a non-wholly owned subsidiary of the Group since then. The acquisition of this subsidiary is detailed in Note 36.

(b) Shanxi Wu'er Rumeng Culture Technology Co., Ltd. *(山西伍贰如梦文化科技有限公司, the “Wu'er Rumeng”) was incorporated and invested by the Company in March 2024. The Company has 43% ownership interest and voting rights in Wu'er Rumeng. By considering that the Company has no sufficiently dominant voting rights to direct the relevant activities of Wu'er Rumeng unilaterally, the Directors conclude that the Company only has significant influence over Wu'er Rumeng and therefore it is classified as an associate of the Company.

* English name is for identification purpose only.

Summarized financial information of associates

Set out below is the summarized financial information of the associates. The summarized financial information below represents amounts shown in the associates’ financial statements prepared in accordance with IFRS Accounting Standards. The associates are accounted for using the equity method in these consolidated financial statements.

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(a) Zhiwu Shengyuan

	<u>As of December 31,</u>
	<u>2023</u>
	<i>RMB'000</i>
Current assets	7,695
Non-current assets	88
Current liabilities	<u>(2,813)</u>
	<u></u>
	<u>Year ended December 31,</u>
	<u>2023</u>
	<i>RMB'000</i>
Revenue for the year	2,659
Loss for the year	(30)
Total comprehensive expense for the year	<u>(30)</u>
	<u></u>

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	<u>As of December 31,</u>
	<u>2023</u>
	<i>RMB'000</i>
Net assets of Zhiwu Shengyuan	4,970
Proportion of the Group’s ownership interest in Zhiwu Shengyuan	30%
The Group’s share of net assets of Zhiwu Shengyuan	1,491
Unrealized profit from downstream transactions	<u>(45)</u>
	<u></u>
Carrying amount of investment in an associate	<u>1,446</u>
	<u></u>

(b) Wu’er Rumeng

	<u>As of December 31,</u>
	<u>2024</u>
	<i>RMB'000</i>
Current assets	1,195
Current liabilities	<u>(524)</u>
	<u></u>
	<u>Year ended December 31,</u>
	<u>2024</u>
	<i>RMB'000</i>
Revenue for the year	287
Loss for the year	(329)
Total comprehensive expense for the year	<u>(329)</u>
	<u></u>

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Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	<u>As of December 31,</u>
	<u>2024</u>
	<i>RMB'000</i>
Net assets of Wu’er Rumeng	671
Proportion of the Group’s ownership interest in Wu’er Rumeng	43%
The Group’s share of net assets of Wu’er Rumeng	289
Unrealized profit from downstream transactions	(39)
	<u> </u>
Carrying amount of investment in an associate	<u>250</u>

22. INVENTORIES

The Group

	<u>As of December 31,</u>		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Packaging materials	464	881	2,680
Finished goods	122,522	79,288	147,744
Goods shipped in transit (<i>Note</i>)	724	4,220	3,974
	<u>123,710</u>	<u>84,389</u>	<u>154,398</u>

Note: The goods shipped in transit are products delivered but not yet received and accepted by the customers.

The Company

	<u>As of December 31,</u>		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Packaging materials	374	856	2,642
Finished goods	107,769	69,633	130,003
Goods shipped in transit	663	4,177	3,950
	<u>108,806</u>	<u>74,666</u>	<u>136,595</u>

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23. TRADE RECEIVABLES AND NOTES RECEIVABLE

The Group

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Trade receivables	23,190	41,035	55,740
Less: allowance for credit losses	(2,752)	(2,409)	(4,050)
	20,438	38,626	51,690
Notes receivable	470	—	200
	20,908	38,626	51,890

As of January 1, 2022, trade receivables amounted to RMB65,929,000.

The Group applies the simplified approach under IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and forward-looking estimates. At the end of each reporting period, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The Group primarily allows a credit period of 1 month to 6 months to certain distributors.

The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on the respective revenue recognition dates at the end of the reporting period.

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Within 1 month	10,883	24,690	33,799
1 month to 3 months	5,307	9,890	7,770
3 months to 6 months	3,844	3,992	8,940
6 months to 1 year	402	52	1,181
Over 1 year	2	2	—
	20,438	38,626	51,690

As of December 31, 2022, 2023 and 2024, included in the Group’s trade receivables balance are debtors with aggregate gross carrying amount of RMB9,355,000, RMB8,467,000, and RMB6,663,000, respectively, which are past due as at the reporting date. The Group does not hold any collateral over these balances or charge any interest thereon.

Details of impairment assessment are set out in Note 38.

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The Company

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Trade receivables	21,795	39,161	46,648
Less: allowance for credit losses	(2,737)	(2,407)	(3,938)
	19,058	36,754	42,710
Notes receivable	470	—	200
	19,528	36,754	42,910

As of January 1, 2022, trade receivables amounted to RMB47,623,000.

The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on the respective revenue recognition dates at the end of the reporting period.

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Within 1 month	10,385	22,820	26,290
1 month to 3 months	4,724	9,890	6,460
3 months to 6 months	3,547	3,992	8,908
6 months to 1 year	402	52	1,052
	19,058	36,754	42,710

As of December 31, 2022, 2023 and 2024, included in the Company’s trade receivables balance are debtors with aggregate gross carrying amount of RMB8,459,000, RMB8,464,000, and RMB5,095,000, respectively, which are past due as at the reporting date. The Company does not hold any collateral over these balances or charge any interest thereon.

Details of impairment assessment are set out in Note 38.

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24. OTHER RECEIVABLES AND PREPAYMENTS

The Group

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Current:			
Prepayments to suppliers	10,751	5,807	7,490
Recoverable value added tax	12,530	7,059	10,817
Rental deposits	5,154	4,849	3,985
Other deposits	3,172	2,304	1,882
Deferred share issue costs for [REDACTED]	—	—	378
Right to returned goods assets	197	291	382
Others	786	455	441
Less: allowance for credit losses	(1,654)	(1,475)	(1,279)
	<u>30,936</u>	<u>19,290</u>	<u>24,096</u>
Non-current:			
Prepayments for purchase of property, plant and equipment	1,394	986	603
Rental deposits	4,255	2,584	1,575
Less: allowance for credit losses	(213)	(129)	(79)
	<u>5,436</u>	<u>3,441</u>	<u>2,099</u>

The Company

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Current:			
Prepayments to suppliers	9,914	5,580	7,256
Recoverable value added tax	7,513	3,720	6,285
Rental deposits	4,885	4,155	3,348
Other deposits	1,598	1,612	1,459
Deferred share issue costs for [REDACTED]	—	—	378
Right to returned goods assets	195	287	377
Others	766	450	435
Less: allowance for credit losses	(647)	(687)	(621)
	<u>24,224</u>	<u>15,117</u>	<u>18,917</u>
Non-current:			
Prepayments for purchase of property, plant and equipment	1,240	892	566
Rental deposits	3,464	2,163	1,159
Less: allowance for credit losses	(173)	(108)	(59)
	<u>4,531</u>	<u>2,947</u>	<u>1,666</u>

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25. FINANCIAL ASSETS AT FVTPL

The Group

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Current:			
Structured deposits (<i>Note i</i>)	—	—	26,077
Non-current:			
Investment in an unlisted company (<i>Note ii</i>)	4,891	3,386	2,981

Note i: Structured deposits are deposit products provided by the commercial banks where the yield upon maturity is linked to indicators like interest rate, exchange rate, stock and commodities. Details of fair value measurements are set out in Note 39.

Note ii: The Group’s investments in an unlisted company is the equity investment in Beijing Sanqian Huanyu Taurus Venture Capital Partnership Co., Ltd.* (北京三千寰宇金牛座創業投資合夥企業(有限合夥)) (“Taurus Venture Capital”). The investment in Taurus Venture Capital has been partially refunded in December 2023 and September 2024, respectively. Details of fair value measurements are set out in Note 39.

* English name is for identification purpose only.

26. MOLD ASSETS

The Group and the Company

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Current:			
Mold assets	13,360	9,293	16,274

Mold assets are used by the Group and the Company to shape the toy components based on product design.

During the Track Record Period, mold assets are transferred to cost of sales on a straight-line basis within one year or less. The estimated useful lives are determined by the Group considering the estimated lifecycle of the toys and anticipated utilization of mold assets based on historical experience.

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27. CASH AND CASH EQUIVALENTS, RESTRICTED BANK DEPOSITS AND TERM DEPOSITS

The Group

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Current			
Cash and bank balances	162,876	219,900	147,146
Cash held at third-party payment platforms (<i>Note</i>)	5,391	10,942	4,134
Cash and cash equivalents	168,267	230,842	151,280
Restricted bank deposits	5,500	—	—
	173,767	230,842	151,280
Non-current			
Term deposits	—	10,000	10,000
	173,767	240,842	161,280

Note: Balance represented cash balances kept in third-party licensed payment platforms in the PRC, such as Alipay and WeChat Pay, which can be withdrawn by the Group at any time and were unsecured and interest free.

As of December 31, 2022, 2023 and 2024, bank balances of the Group carried interest at market rates ranging from 0.25% to 2.00%, from 0.20 % to 2.00%, and from 0.10% to 1.20% per annum, respectively.

As of December 31, 2022, restricted bank deposits carried fixed interest rates of 1.70% per annum which have been used to issue bank guarantees and are classified as current assets.

As of December 31, 2023 and 2024, term deposits with original maturity over three months were held within banks and carried fixed interest rate of 2.90% per annum. These deposits will all mature in year 2026.

The Company

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Current			
Cash and bank balances	95,318	191,381	108,445
Cash held at third-party payment platforms	4,121	8,581	3,332
Cash and cash equivalents	99,439	199,962	111,777
Restricted bank deposits	5,500	—	—
	104,939	199,962	111,777
Non-current			
Term deposits	—	10,000	10,000
	104,939	209,962	121,777

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28. TRADE PAYABLES

The Group

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Trade payables	23,877	25,148	20,122

The credit period granted by the Group’s suppliers is generally within 45 days. An aging analysis of the trade payables as of December 31, 2022, 2023 and 2024, based on the recognition date, is as follows:

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Within 45 days	23,622	24,475	19,473
46 to 180 days	245	543	628
Over 181 days	10	130	21
	23,877	25,148	20,122

The Company

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Trade payables	23,866	25,137	18,116

The credit period granted by the Company’s suppliers is generally within 45 days. An aging analysis of the trade payables as of December 31, 2022, 2023 and 2024, based on the recognition date, is as follows:

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Within 45 days	23,615	24,469	17,521
46 to 180 days	245	543	574
Over 181 days	6	125	21
	23,866	25,137	18,116

29. LICENSE FEES PAYABLES

The Group and the Company

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
License fees payables	14,781	6,316	39,130
Less: non-current portion	(454)	(1,910)	(3,850)
Current portion	14,327	4,406	35,280

As disclosed in Note 19, the Group has entered into certain licensing agreements with copyright owners to obtain Licensed IPs. Pursuant to the licensing agreements, fixed minimum payments are required to be paid in installments throughout the contract period, whereas variable payments, which are contingent based on sales volumes, shall be settled within the respective periods when the triggering events occur.

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30. OTHER PAYABLES

The Group

	As of December 31,		
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Payables for salary, welfare and staff reimbursement	7,154	8,981	10,527
Payables for marketing expenses	2,121	912	650
Payable for leasehold improvements	1,954	1,277	1,561
Deposits payable	1,500	540	480
Payables for professional service fees	1,099	1,300	1,938
Other tax payables	1,832	3,837	5,016
Refund liabilities	386	605	858
Others	1,402	2,469	2,695
	<u>17,448</u>	<u>19,921</u>	<u>23,725</u>

The Company

	As of December 31,		
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Payables for salary, welfare and staff reimbursement	6,673	8,421	9,567
Payables for marketing expenses	2,121	912	484
Payable for leasehold improvements	1,832	972	753
Deposits payable	1,500	540	480
Payables for professional service fees	1,049	1,261	1,410
Other tax payables	875	2,737	3,854
Refund liabilities	354	593	849
Others	1,113	2,084	2,032
	<u>15,517</u>	<u>17,520</u>	<u>19,429</u>

31. FINANCIAL LIABILITIES AT FVTPL

Since the date of incorporation, the Company has completed several series of financing through issuing Shares with Preferential Rights, the details are disclosed as below:

Series A Financing

In January 2018, the Company entered into investment agreements (the “Series A Financing”) with six independent investors (collectively as the “Series A Investors”), pursuant to which the Series A Investors shall make total investments of RMB52,320,000 to purchase paid-in capital of approximately RMB437,000 of the Company from existing shareholders and make total investments of RMB40,000,000 to subscribe for new paid-in capital of approximately RMB313,000 of the Company. All paid-in capital acquired by Series A Investors are Shares with Preferential Rights. The cash consideration was fully paid to the existing shareholders and the Company in 2018.

Series A+ Financing

In February 2019, the Company entered into investment agreements (the “Series A+ Financing”) with two independent investors (collectively as the “Series A+ Investors”), pursuant to which the Series A+ Investors shall make total investments of RMB22,500,000 to subscribe for new paid-in capital of approximately RMB127,000 of the Company. All paid-in capital acquired by Series A+ Investors are Shares with Preferential Rights. The cash consideration was fully paid to the Company in 2019.

Series B Financing

In January 2020, the Company entered into investment agreements (the “Series B Financing”) with three independent investors (collectively as the “Series B Investors”), pursuant to which the Series B Investors shall make total investments of RMB50,000,000 to subscribe for new paid-in capital of approximately RMB154,000 of the Company. All paid-in capital acquired by Series B Investors are Shares with Preferential Rights. The cash consideration was fully paid to the Company in 2020.

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Series C Financing

In August 2021, the Company entered into investment agreements (the “Series C Financing”) with nine independent investors (collectively as the “Series C Investors”), pursuant to which the Series C Investors shall make total investments of RMB250,000,000 to subscribe for new paid-in capital of approximately RMB121,000 of the Company. All paid-in capital acquired by Series C Investors are Shares with Preferential Rights. The cash consideration was fully paid to the Company in 2021.

The key terms of the Shares with Preferential Rights are summarized as follows:

(a) Liquidation preferences

If any liquidation, dissolution, termination or deemed liquidation event occurs in the Company:

The Series C Investors shall be entitled to receive the following amounts: (i) the amount equal to the original investment amount plus interest of 8% per annum calculated on a simple basis and (ii) any dividends that have been declared but not yet paid.

The Series B Investors shall be entitled to receive the higher of: (i) the amount equal to the original investment amount plus interest of 12% per annum calculated on a simple basis and any dividends that have been declared but not yet paid; and (ii) the liquidation amount the Series B Investors can obtain based on the preferential rights hold by the Series B Investors.

The Series A+ Investors shall be entitled to receive the following amounts: (i) the amount equal to the 120% of original investment amount and (ii) any dividends that have been declared but not yet paid.

The Series A Investors shall be entitled to receive the following amounts: (i) the amount equal to the 150% of original investment amount and (ii) any dividends that have been declared but not yet paid.

The liquidation order is to first pay the priority liquidation amount of the Series C Investors in full, then pay the priority liquidation amount of the Series B Investors in full, then pay the liquidation priority amount to the Series A+ Investors in full, then pay the liquidation priority amount to the Series A Investors in full, and the remaining amount shall be distributed among all shareholders in proportion to their actual capital contributions.

(b) Anti-dilution right

If the Company issues new paid-in capital at a price lower than the price paid by the Series C, B, A Investors (collectively as the “Investors”), the Investors shall have the right to require the Company to issue new paid-in capital to the Investors at consideration of nil or minimum value permitted under the PRC laws, so that the adjusted proportion of shares held by the Investors equal to a specific proportion.

(c) Redemption right

The investment from the Investors shall be redeemed by Mr. Chen Wei, Mr. Huang Jin and Ms. Bai Jie (together, the “Management Shareholders”), at the option of the Investors if the occurrence of the following certain contingent events.

- If the Company fails to complete a qualified [REDACTED] before December 31, 2024 and Investors are unable to exit through alternative means such as mergers and acquisitions or conversion of shares.
- Prior to a qualified [REDACTED], the Company or Management Shareholders commits a material breach of any of the transaction documents and within thirty (30) business days from the date of such material breach, the Company or Management Shareholder fails to remedy such material breach.
- Without the prior consent of the majority of Investors, any change in the control or ownership of the Company happens.

If the Management Shareholders fail to repurchase Shares with Preferential Rights held by the Investors within sixty (60) days from the date the Investors make the redemption requests pursuant to the aforementioned provisions, the Investors shall have the right to demand the dissolution of the Company and proceed with the liquidation.

The Series C Investors shall be entitled to receive the redemption amount equivalent to the original investment amount plus interest of 10% per annum calculated on a simple basis, and minus dividends received in previous years (if any).

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The Series B Investors shall be entitled to receive the higher of the: (i) redemption amount equivalent to the original investment amount plus interest of 12% per annum calculated on a simple basis, and minus dividends received in previous years (if any); and (ii) price agreed between Management Shareholders and the Series B Investors, in the event that Management Shareholder is obligated to repurchase.

The Series A+ Investors shall be entitled to receive the redemption amount equivalent to the original investment amount plus interest of 12% per annum calculated on a simple basis, and minus dividends received in previous years (if any).

The Series A Investors shall be entitled to receive the higher of the: (i) redemption amount equivalent to the original investment amount plus interest of 12% per annum calculated on a simple basis, and minus dividends received in previous years (if any); and (ii) fair value of the Shares with Preferential Rights held by the Series A Investors when Management Shareholders paid the consideration for the redemption.

The redemption order is to first pay the priority redemption amount of the Series C Investors in full, then pay the priority redemption amount of the Series B Investors in full, then pay the priority redemption amount of the Series A+ Investors in full and finally pay the priority redemption amount of the Series A Investors in full.

(d) Termination of the preferential rights

The preferential right of the Shares with Preferential Rights will terminate immediately before the submission of the application for the Listing to the Stock Exchange, provided that all such special rights shall be automatically reinstated upon the occurrence of the following events (whichever is the earliest): (i) the Listing application is withdrawn voluntarily by the Company; (ii) the Listing application lapses; or (iii) the Listing application is explicitly rejected by the relevant approval authorities.

Presentation and classification

The Company has designated Shares with Preferential Rights as financial liabilities at FVTPL on initial recognition, the fair value change of Shares with Preferential Rights is recognized to profit or loss.

The movements in the financial liabilities at FVTPL are as follows:

	Series A Financing	Series A+ Financing	Series B Financing	Series C Financing	Total amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2022	334,084	55,200	84,288	206,426	679,998
Change in fair value	(68,829)	(7,486)	281	11,777	(64,257)
At December 31, 2022	265,255	47,714	84,569	218,203	615,741
Change in fair value	72,447	11,662	12,795	(5,867)	91,037
At December 31, 2023	337,702	59,376	97,364	212,336	706,778
Change in fair value	155,864	25,154	19,025	(47,649)	152,394
At December 31, 2024	493,566	84,530	116,389	164,687	859,172

The fair value of the financial liabilities at FVTPL as of December 31, 2022, 2023 and 2024 was valued by the Directors with the assistance of an independent qualified professional valuer, Valuelink Asia (Beijing) Enterprise Management Consulting Co., Ltd. (“Valuelink”), which is not connected to the Company and has appropriate qualifications and experiences in valuation of similar instruments. The address of Valuelink is 511, SOHO Jiasheng Center, No. 19, North East Third Ring Road, Chaoyang District, Beijing, PRC.

The Company used the discounted cash flow method as of December 31, 2022, 2023 and 2024 to determine the underlying equity value of the Company. The Directors consider the discounted cash flow method is more relevant and appropriate for valuation of the underlying equity value of the Company as of December 31, 2022, 2023 and 2024, considering there was no third party financing activity near such valuation date.

Hybrid method was adopted to allocate the equity value amongst different classes of Paid-in Capital with Preferred Rights at the end of each reporting period. The hybrid method is a hybrid between the probability-weighted expected return method (“PWERM”) and the option pricing method (“OPM”).

Under a PWERM, the equity value is based on the probability-weighted present value of expected future investment returns, considering each of the possible future outcomes available to the enterprise, as well as the rights of each equity class. Common future outcomes model might include [REDACTED], liquidation or redemption.

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The OPM treats the rights of Paid-in Capital with Preferred Rights and paid-in capital as equivalent to that of call options on the Company’s equity value, with strike prices based on the liquidation preferences and redemption provisions of Paid-in Capital with Preferred Rights. Thus, the equity value of the paid-in capital can be determined by estimating the value of its portion of each of these call option rights.

Key valuation assumptions used to determine the fair value of the Shares with Preferential Right are as follows:

	As of December 31,		
	2022	2023	2024
Time to [REDACTED]	2.00 years	2.00 years	1.00 years
Time to liquidation	2.00 years	2.00 years	1.00 years
Risk-free interest rate	2.34%	2.20%	1.13%
Discount for lack of marketability	11.50%	13.00%	9.00%
Discount rate	18.00%	17.50%	16.00%
Volatility	35.99%	40.42%	40.59%
Possibilities under liquidation scenario	70.00%	60.00%	30.00%
Possibilities under [REDACTED] scenario	30.00%	40.00%	70.00%

Risk-free interest rate was estimated based on the China government bond yield curve with maturity matching to the expected exit period as at the valuation date.

The discount for lack of marketability was estimated based on the Finnerty model with reference to the comparable companies in the same industry.

Discount rate was estimated by weighted average cost of capital with reference to the comparable companies in the same industry.

Volatility was estimated on the valuation date based on average of historical volatilities of the comparable companies in the same industry for a period from the valuation date to expected [REDACTED], liquidation or redemption dates, where applicable.

32. PAID-IN CAPITAL/SHARE CAPITAL

The Company

(i) Paid-in capital

To the Historical Financial Information, the paid-in capital of the Group represents the paid-in capital without preferential rights of the Company before it was converted into joint stock limited liability company with limited liability.

	Paid-in capital
	RMB'000
As of January 1, 2022	905
Conversion into joint stock limited liability company (<i>Note</i>)	(905)
As of December 31, 2022	—

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(ii) Share capital

Authorized and issued:

	Number of ordinary shares	Number of Shares with Preferential Rights	Nominal value of total shares
	'000	'000	RMB'000
Issued and fully paid:			
As of January 1, 2022	—	—	—
Issue of ordinary shares without preferential rights upon conversion into a joint stock limited liability company (<i>Note</i>)	4,400	—	4,400
Issue of Shares with Preferential Rights upon conversion into joint stock limited liability company (<i>Note</i>)	—	5,600	5,600
As of December 31, 2022, 2023 and 2024	<u>4,400</u>	<u>5,600</u>	<u>10,000</u>

Presented as:

	Number of ordinary shares	Par value per ordinary share	Shown in the Historical Financial Information
	'000	RMB	RMB'000
Ordinary shares of RMB1.00 each			
Issued and fully paid			
As of January 1, 2022	—	—	—
Issue of ordinary shares without preferential rights upon conversion into joint stock limited liability company (<i>Note</i>)	4,400	1.00	4,400
As of December 31, 2022, 2023 and 2024	<u>4,400</u>	<u>1.00</u>	<u>4,400</u>

Note: On June 15, 2022, the Company was converted from a limited liability company to joint stock limited liability company, and was renamed to 52TOYS Development Co., Ltd.. The net assets of the Company as of the then benchmark date for stock conversion were converted into approximately 4,400,000 ordinary shares without preferential rights and 5,600,000 shares with preferential rights at par value of RMB1.00 each. As the Shares with Preferential Rights were classified as financial liabilities at FVTPL, the conversion into joint stock company does not affect the terms of preferential rights nor the fair value of relevant financial liabilities at FVTPL, hence it is not resulted in other financial impacts to the Historical Financial Information but increased the number of Shares with Preferential Rights. The excess of net assets converted over nominal value of the ordinary shares was credited to the Company’s share premium.

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33. RESERVES

The Company

	Share premium	Other reserve	Share-based payments reserve	Accumulated losses	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
As of January 1, 2022	—	1,742	15,002	(284,605)	(267,861)
Profit and total comprehensive income for the year	—	—	—	2,871	2,871
Conversion into a joint stock limited liability company	196,883	(123,242)	(11,996)	(65,140)	(3,495)
Recognition of equity settled share- based payments	—	—	9,211	—	9,211
As of December 31, 2022	196,883	(121,500)	12,217	(346,874)	(259,274)
Loss and total comprehensive expense for the year	—	—	—	(70,432)	(70,432)
As of December 31, 2023	196,883	(121,500)	12,217	(417,306)	(329,706)
Loss and total comprehensive expense for the year	—	—	—	(125,992)	(125,992)
As of December 31, 2024	196,883	(121,500)	12,217	(543,298)	(455,698)

34. RETIREMENT BENEFITS SCHEME

The PRC employees of the Group are members of a state-managed retirement benefits plan operated by the government of the PRC. The Company and its PRC subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefits plan to fund the employee benefits. The only obligation of the Group with respect to the retirement benefits plan is to make the specified contributions.

The retirement benefits cost charged to profit or loss of approximately RMB8,185,000, RMB8,087,000 and RMB10,273,000 for the years ended December 31, 2022, 2023 and 2024, represents contributions payable to the plan by the Group at rates specified in the rules of the plan.

35. SHARE-BASED PAYMENT TRANSACTIONS

On September 25, 2019 (the “Grant Date”), the Group approved and adopted a share award scheme (the “2019 Share Award Scheme”) to recognize the contributions of certain eligible employees (the “2019 Share Award Participants”) of the Group and to incentivize them to further promote the development of the Group. In order to implement the 2019 Share Award Scheme, Tianjin Wuer Jiqu Enterprise Management Consulting Limited Partnership* (天津五貳極趣企業管理諮詢合夥企業(有限合夥)) is a partnership entity, which is not controlled by the Company or any subsidiary of the Company, was established and designated as a share award scheme platform to hold the shares specially awarded to the 2019 Share Award Participants as the ultimate beneficial owners. The 2019 Share Award Participants were granted the restricted partnership units of the share award scheme platform (the “Restricted Partnership Units”) and each of the Restricted Partnership Unit represent one ordinary share of the Company. The fair value of Restricted Partnership Units at Grant Date was determined with reference to valuation carried out by an independent qualified professional valuer, Vocation (Beijing) International Assets Appraisal Co., Ltd. (“Vocation”), which is not connected to the Company and has appropriate qualifications and experiences in valuation of share award scheme. The address of Vocation is 3rd Floor, Building 8, Foreign Language Culture and Creativity Park, No. 19 Chegongzhuang West Road, Haidian District, Beijing, PRC.

The Restricted Partnership Units granted to the eligible employees shall be subject to a service-based condition with 3 years ended on September 30, 2022 (the “Specified Service Period”). Pursuant to arrangement of the 2019 Share Award Scheme, if the 2019 Share Award Participants resign from the Group within the Specified Service Period, the Restricted Partnership Units of the grantees should be transferred to Mr. Chen Wei or other eligible employees designated by Mr. Chen Wei at the initial subscription price. Mr. Chen Wei could choose to grant the certain Restricted Partnership Units from the resigned grantees to new eligible employees up to his own decision no later than September 30, 2022. After September 30, 2022, all the remaining relevant Restricted Partnership Units not re-granted to other employees and still held by Mr. Chen Wei shall be entitled to Mr. Chen Wei automatically. The Restricted Partnership Units granted to the new eligible employees designated by Mr. Chen Wei during the Specified Service Period and immediately entitled to Mr. Chen Wei after September 30, 2022 constitute share-based payment transactions within the scope of IFRS 2. The fair values of the Restricted Partnership Units at relevant grant dates were determined with reference to valuation carried out by independent qualified professional valuers, Vocation and Valuelink.

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During the nine-month period ended September 30, 2022, all the Restricted Partnership Units from the resigned 2019 Share Award Participants were not regranted, but entitled to Mr. Chen Wei immediately after September 30, 2022, and there are no unvested Restricted Partnership Units since then.

Share-based payment expenses recognized amounted to RMB9,211,000 for the year ended December 31, 2022 due to aforementioned circumstances.

Key valuation assumptions used to determine the fair value of the Restricted Partnership Units entitled to Mr. Chen Wei immediately after September 30, 2022 are as follows:

	As of September 30, 2022
Time to [REDACTED]	2.25 years
Time to liquidation	2.25 years
Risk-free interest rate	2.24%
Discount for lack of marketability	12.0%
Volatility	36.47%
Possibilities under liquidation scenario	70.00%
Possibilities under [REDACTED] scenario	30.00%

* *English name is for identification purpose only.*

36. ACQUISITION OF A SUBSIDIARY

According to the share transfer agreement signed between the Company and another existing shareholder of Zhiwu Shengyuan, the Company acquired additional 25% equity interest in Zhiwu Shengyuan at a consideration of RMB1,250,000 on January 1, 2024. Upon the completion of the acquisition, the Company’s direct equity interest in Zhiwu Shengyuan is 55% and Zhiwu Shengyuan became a non-wholly owned subsidiary of the Company from then on. Prior to the acquisition, the Company’s equity interests in Zhiwu Shengyuan were accounted for as interest in an associate under equity method. The acquisition has been accounted for as acquisition of business using the acquisition method.

Assets acquired and liabilities recognized at the date of acquisition

	As of January 1, 2024
	<i>RMB’000</i>
Property, plant and equipment	88
Inventories	1,234
Trade receivables	352
Other receivables	139
Cash and cash equivalents	5,970
Trade payables	(2,529)
Other payables	(284)
Net assets recognized at the date of acquisition	4,970

Non-controlling interests

The non-controlling interests recognized at the acquisition date were measured by reference to the proportionate share of recognized amounts of net assets of Zhiwu Shengyuan and amounted to approximately RMB2,236,000.

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Consideration transferred and bargain purchase arose in the acquisition of business

	Year ended December 31, 2024
	<i>RMB’000</i>
30% equity interests in Zhiwu Shengyuan previously held	1,446
Cash consideration for acquiring additional 25% equity interests in Zhiwu Shengyuan	1,250
Total consideration	2,696
Plus: non-controlling interests	2,236
Less: net assets recognized at the date of acquisition	(4,970)
Bargain purchase gain on acquisition of a subsidiary	(38)

Net cash inflows arising on acquisition are as follows:

	Year ended December 31, 2024
	<i>RMB’000</i>
Consideration paid in cash	(1,250)
Less: Cash and cash equivalents acquired	5,970
Net cash inflows	4,720

Impact of acquisition on the results of the Group

Included in the Group’s profit for the year ended December 31, 2024 is RMB1,520,000 attributable to the additional business generated by Zhiwu Shengyuan after the acquisition. Group’s revenue for the year ended December 31, 2024 includes RMB22,996,000 generated from Zhiwu Shengyuan after the acquisition.

37. FINANCIAL INSTRUMENTS BY CATEGORIES

The Group

	As of December 31,		
	2022	2023	2024
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Financial assets at amortized cost	206,166	288,507	220,169
Financial assets at FVTPL	4,891	3,386	29,058
	211,057	291,893	249,227
Financial liabilities at amortized cost	46,734	37,962	66,576
Financial liabilities at FVTPL	615,741	706,778	859,172
	662,475	744,740	925,748

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The Company

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Financial assets at amortized cost	194,116	280,889	213,041
	194,116	280,889	213,041
Financial liabilities at amortized cost	46,262	57,222	62,405
Financial liabilities at FVTPL	615,741	706,778	859,172
	662,003	764,000	921,577

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and Company’s major financial instruments include trade and notes receivable, other receivables, amounts due from related parties, restricted bank deposits, cash and cash equivalents, term deposits, trade payables, other payables, license fees payables and financial liabilities at FVTPL. Except for the financial instruments above, the Group’s financial instrument also include financial assets at FVTPL. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include interest rate risk, other price risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group

As at the end of each reporting period, the Group had the following monetary assets denominated in currencies other than RMB.

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Assets			
USD	3,675	9,769	19,309

The Company

As of December 31, 2024, the Company had the following monetary assets denominated in currencies other than RMB.

	As of December 31, 2024
	RMB'000
Assets	
USD	1,424

Sensitivity analysis

The Group and the Company were primarily subject to foreign currency risk from the movements of the exchange rates between RMB against USD. At the end of each reporting period, if the exchange rate of RMB had been weakened against USD by 5% and all other variables were held constant, the Group’s and the Company’s post-tax loss for each reporting period would increase as follows. For a 5% strengthening of RMB against USD, there would be an opposite impact on the post-tax loss for the year.

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The Group

	Increase in post-tax loss for the year ended December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Assets			
USD	138	366	724

The Company

	Increase in post-tax loss for the year ended December 31,	
	2024	
	RMB'000	
Assets		
USD		53

Interest rate risk

The Group and the Company’s fair value interest rate risk relates primarily to lease liabilities (Note 18), license fees payables (Note 29), restricted bank deposits (Note 27) and term deposits (Note 27). The Group and the Company are also exposed to cash flow interest risk in relation to variable-rate bank balances (Note 27) which carry prevailing market interests. The Group and the Company manage interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. No sensitivity analysis on cash flow interest rate risk is presented as the Directors consider the sensitivity on interest rate risk on bank balances is insignificant.

Other price risk

The Group and the Company are exposed to other price risk through Shares with Preferential Rights measured at FVTPL and the Group is also exposed to other price risk on financial assets measured at FVTPL.

Sensitivity analyses for Shares with Preferential Rights with fair value measurement categorized within Level 3 were disclosed in Note 39. The Directors consider the fluctuation in fair value changes on financial assets measured at FVTPL including the structured deposits and investment in unlisted companies, is insignificant.

Credit risk and impairment assessment

Credit risk refers to the risk that the Group and the Company’s counterparties default on their contractual obligations resulting in financial losses to the Group and the Company. The Group and the Company’s credit risk exposures are primarily attributable to trade receivables, other receivables, amounts due from related parties, bank balances, term deposits, structured deposits and restricted bank deposits. The Group and the Company do not hold any collateral or other credit enhancements to cover its credit risks associated with their financial assets.

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The Group and the Company performed impairment assessment for financial assets under ECL model. Information about the Group and the Company’s credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable, are summarized as below:

The Group

The Group’s internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables amounts due from related parties of trade nature	Other financial assets
Low risk	The counterparty has a low risk of default and does not have past-due amounts or the counterparty frequently repays after due dates but usually settle the amounts in full	Lifetime ECL -not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL -not credit-impaired	Lifetime ECL -not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL -credit-impaired	Lifetime ECL -credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Group’s financial assets, which are subject to ECL assessment:

				Gross carrying amount		
				As of December 31,		
				2022	2023	2024
Notes				RMB’000	RMB’000	RMB’000
Financial assets at amortized cost						
Trade receivables	23	Low risk	Lifetime ECL (not credit-impaired)	21,490	39,092	54,647
		Loss	Lifetime ECL (credit-impaired)	1,700	1,943	1,093
Notes receivable	23	Low risk	12m ECL	470	—	200
Other receivables	24	Low risk	12m ECL	10,999	9,146	6,965
		Loss	Lifetime ECL (credit-impaired)	2,368	1,046	918
Amounts due from related parties	41	Low risk	Lifetime ECL (not credit-impaired)	—	451	488
Bank balances	27	Low risk	12m ECL	162,867	219,900	147,146
Balances on online payment platforms	27	Low risk	12m ECL	5,391	10,942	4,134
Restricted bank deposits	27	Low risk	12m ECL	5,500	—	—
Term deposits	27	Low risk	12m ECL	—	10,000	10,000
Total				<u>210,785</u>	<u>292,520</u>	<u>225,591</u>

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The Company

The tables below detail the credit risk exposures of the Company’s financial assets, which are subject to ECL assessment:

				Gross carrying amount		
				As of December 31,		
				2022	2023	2024
				RMB'000	RMB'000	RMB'000
Notes						
Financial assets at amortized cost						
Trade receivables	23	Low risk	Lifetime ECL (not credit-impaired)	20,095	37,218	45,555
		Loss	Lifetime ECL (credit-impaired)	1,700	1,943	1,093
Notes receivable	23	Low risk	12m ECL	470	—	200
Other receivables	24	Low risk	12m ECL	9,308	8,098	6,118
		Loss	Lifetime ECL (credit-impaired)	1,405	282	283
Amounts due from related parties	41	Low risk	Lifetime ECL (not credit-impaired)	—	451	488
Amounts due from subsidiaries	41	Low risk	Lifetime ECL (not credit-impaired)	84,170	57,691	73,172
Bank balances	27	Low risk	12m ECL	95,313	191,381	108,445
Balances on online payment platforms	27	Low risk	12m ECL	4,121	8,581	3,332
Restricted bank deposits	27	Low risk	12m ECL	5,500	—	—
Term deposits	27	Low risk	12m ECL	—	10,000	10,000
Total				222,082	315,645	248,686

Bank balances, balances on online payment platforms, term deposits and restricted bank deposits

The Group and the Company’s bank balances, balances on online payment platforms, term deposits, and restricted bank deposits are placed with reputable state-owned banks, commercial banks or third-party licensed payment platforms with high credit ratings in the mainland China. There has been no recent history of default in relation to these financial institutions.

The credit risk on bank balances, balances on online payment platforms, term deposits, and restricted bank deposits is limited because the counterparties are reputable financial institutions with high credit rating assigned by international credit-rating agencies. The Group assessed 12m ECL for bank balances, balances on online payment platforms, term deposits, and restricted bank deposits by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances, balances on online payment platforms, term deposits and restricted bank deposits is considered to be insignificant and therefore no loss allowance was recognized.

Financial assets included in other receivables and amount due from subsidiaries of non-trade nature

In order to minimize the credit risk of other receivables and amounts due from subsidiaries of non-trade nature, the Directors continuously monitor the settlement status and the level of exposure to ensure that follow-up action is taken to recover overdue debts. The Directors have taken into account the economic outlook of the industries in which the debtors operate and reviewed the recoverable amount of each amount at the end of the reporting period to ensure that adequate impairment losses were recognized for irrecoverable debts.

The Group and the Company measure the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, on which the Group and the Company recognize lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Trade receivables and amounts due from related parties of trade nature and amount due from subsidiaries of trade nature

As part of the Group’s and the Company’s credit risk management, the Group and the Company use debtors’ aging to assess the impairment for their customers because these customers with common risk characteristics that are representative of the customers’ abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed on a collective basis by using provision matrix within lifetime ECL (not credit-impaired). The Group’s and the Company’s credit-impaired with gross carrying amounts of RMB1,700,000, RMB1,943,000, and RMB1,093,000 as of December 31, 2022, 2023 and 2024 respectively, were assessed individually.

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The Group

Gross carrying amount

	As of December 31					
	2022		2023		2024	
	Average loss rate	Trade receivables	Average loss rate	Trade receivables	Average loss rate	Trade receivables
	%	RMB'000	%	RMB'000	%	RMB'000
Within 1 month	0.68	10,958	0.20	24,740	0.22	33,872
1 month to 3 months	2.14	5,423	0.77	9,967	1.06	7,853
3 months to 6 months	10.79	4,309	7.53	4,317	19.60	11,120
6 months to 1 year	37.29	641	13.33	60	28.21	1,645
Over 1 year	98.74	159	75.00	8	100.00	157
		<u>21,490</u>		<u>39,092</u>		<u>54,647</u>

The Company

Gross carrying amount

	As of December 31					
	2022		2023		2024	
	Average loss rate	Trade receivables	Average loss rate	Trade receivables	Average loss rate	Trade receivables
	%	RMB'000	%	RMB'000	%	RMB'000
Within 1 month	0.71	10,459	0.22	22,869	0.22	26,349
1 month to 3 months	2.24	4,832	0.77	9,967	0.66	6,503
3 months to 6 months	11.48	4,007	7.53	4,317	19.66	11,088
6 months to 1 year	37.29	641	13.33	60	27.85	1,458
Over 1 year	100.00	156	100.00	5	100.00	157
		<u>20,095</u>		<u>37,218</u>		<u>45,555</u>

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by the Directors to ensure relevant information about specific debtors is updated.

The Group’s and the Company’s trade receivables are due from a large number of customers, therefore the Group and the Company have no material concentration of credit risk as of December 31, 2022, 2023 and 2024. The Directors closely monitor the subsequent settlement of the trade receivables.

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The following table shows the movements in lifetime ECL that has been recognized for trade receivables under the simplified approach.

	Lifetime ECL (not credit- impaired)	Lifetime ECL (credit- impaired)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As of January 1, 2022	713	—	713
Impairment losses recognized	418	1,621	2,039
Transfer to credit-impaired	(79)	79	—
As of December 31, 2022	1,052	1,700	2,752
Impairment losses reversed	(537)	—	(537)
Impairment losses recognized	—	194	194
Transfer to credit-impaired	(49)	49	—
As of December 31, 2023	466	1,943	2,409
Impairment losses reversed	—	(39)	(39)
Impairment losses recognized	2,771	312	3,083
Transfer to credit-impaired	(277)	277	—
Impairment losses written-off	(3)	(1,400)	(1,403)
As of December 31, 2024	<u>2,957</u>	<u>1,093</u>	<u>4,050</u>

The Company

Trade receivables

	Lifetime ECL (not credit- impaired)	Lifetime ECL (credit- impaired)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As of January 1, 2022	344	—	344
Impairment losses recognized	772	1,621	2,393
Transfer to credit-impaired	(79)	79	—
As of December 31, 2022	1,037	1,700	2,737
Impairment losses reversed	(524)	—	(524)
Impairment losses recognized	—	194	194
Transfer to credit-impaired	(49)	49	—
As of December 31, 2023	464	1,943	2,407
Impairment losses reversed	—	(39)	(39)
Impairment losses recognized	2,658	312	2,970
Transfer to credit-impaired	(277)	277	—
Impairment losses written-off	—	(1,400)	(1,400)
As of December 31, 2024	<u>2,845</u>	<u>1,093</u>	<u>3,938</u>

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Amount due from subsidiaries of trade nature

The following table shows the movements in lifetime ECL that has been recognized for amount due from subsidiaries of trade nature under the simplified approach.

	Lifetime ECL (not credit- impaired)
	<i>RMB’000</i>
As of January 1, 2022	—
Impairment losses recognized	6,968
As of December 31, 2022	6,968
Impairment losses recognized	12,938
As of December 31, 2023	19,906
Impairment losses reversed	(13,958)
As of December 31, 2024	5,948

Liquidity risk

Liquidity risk is the risk that the Group and the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group and the Company’s objective is to make a balance between maintaining a level of cash and cash equivalents and continuity of funding and flexibility through the use of internally generated cash flows from operation.

Cash flow forecasting is performed by the finance department of the Group and the Company. The finance department of the Group and the Company monitor rolling forecasts of the Group and the Company’s liquidity requirements to ensure it has sufficient cash to meet operational needs as well as the liabilities to other parties. If needed, the Group and the Company review its funding position to ensure that it has adequate financial resources in meeting its financial obligations.

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The maturity profile of the Group and the Company’s financial liabilities at the end of each reporting period, based on contractual undiscounted payments, was as follows:

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As of December 31, 2022						
	Weighted average interest rate	On demand or within 1 year	1 to 2 years	2 to 5 years	Total	Carrying amount
	%	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Trade payables	N/A	23,877	—	—	23,877	23,877
License fees payables	4.10-4.25	14,511	235	235	14,981	14,781
Financial liabilities included in other payables	N/A	8,076	—	—	8,076	8,076
Financial liabilities at FVTPL	3.49-12.00	—	562,038	—	562,038	615,741
Lease liabilities	3.95-4.65	23,781	12,196	4,981	40,958	39,485
		<u>70,245</u>	<u>574,469</u>	<u>5,216</u>	<u>649,930</u>	<u>701,960</u>
As of December 31, 2023						
	Weighted average interest rate	On demand or within 1 year	1 to 2 years	2 to 5 years	Total	Carrying amount
	%	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Trade payables	N/A	25,148	—	—	25,148	25,148
License fees payables	3.85	4,424	2,008	—	6,432	6,316
Financial liabilities included in other payables	N/A	6,498	—	—	6,498	6,498
Financial liabilities at FVTPL	3.49-12.00	562,038	—	—	562,038	706,778
Lease liabilities	3.65-4.65	16,861	10,311	2,610	29,782	28,617
		<u>614,969</u>	<u>12,319</u>	<u>2,610</u>	<u>629,898</u>	<u>773,357</u>
As of December 31, 2024						
	Weighted average interest rate	On demand or within 1 year	1 to 2 years	2 to 5 years	Total	Carrying amount
	%	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Trade payables	N/A	20,122	—	—	20,122	20,122
License fees payables	3.50-3.75	35,587	3,993	75	39,655	39,130
Financial liabilities included in other payables	N/A	7,324	—	—	7,324	7,324
Financial liabilities at FVTPL	2.99-12.00	588,038	—	—	588,038	859,172
Lease liabilities	3.30-4.65	13,327	4,044	2,705	20,076	19,300
		<u>664,398</u>	<u>8,037</u>	<u>2,780</u>	<u>675,215</u>	<u>945,048</u>

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As of December 31, 2022						
	Weighted average interest rate	On demand or within 1 year	1 to 2 years	2 to 5 years	Total	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	N/A	23,866	—	—	23,866	23,866
License fees payables	4.10-4.25	14,511	235	235	14,981	14,781
Financial liabilities included in other payables	N/A	7,615	—	—	7,615	7,615
Financial liabilities at FVTPL	3.49-12.00	—	562,038	—	562,038	615,741
Lease liabilities	3.95-4.65	20,177	8,546	2,868	31,591	30,723
		<u>66,169</u>	<u>570,819</u>	<u>3,103</u>	<u>640,091</u>	<u>692,726</u>
As of December 31, 2023						
	Weighted average interest rate	On demand or within 1 year	1 to 2 years	2 to 5 years	Total	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	N/A	25,137	—	—	25,137	25,137
License fees payables	3.85	4,424	2,008	—	6,432	6,316
Financial liabilities included in other payables	N/A	5,769	—	—	5,769	5,769
Amounts due to a subsidiary	N/A	20,000	—	—	20,000	20,000
Financial liabilities at FVTPL	3.49-12.00	562,038	—	—	562,038	706,778
Lease liabilities	3.65-4.65	12,275	6,980	987	20,242	19,484
		<u>629,643</u>	<u>8,988</u>	<u>987</u>	<u>639,618</u>	<u>783,484</u>
As of December 31, 2024						
	Weighted average interest rate	On demand or within 1 year	1 to 2 years	2 to 5 years	Total	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	N/A	18,116	—	—	18,116	18,116
License fees payables	3.50-3.75	35,587	3,993	75	39,655	39,130
Financial liabilities included in other payables	N/A	5,159	—	—	5,159	5,159
Financial liabilities at FVTPL	2.99-12.00	588,038	—	—	588,038	859,172
Lease liabilities	3.30-4.65	8,678	1,102	—	9,780	9,576
		<u>655,578</u>	<u>5,095</u>	<u>75</u>	<u>660,748</u>	<u>931,153</u>

Capital management

The Group and the Company manage its capital to ensure the Group and the Company will be able to continue as a going concern while maximizing the return to shareholders through the optimization of debt and equity balances. The Group and the Company’s overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group and the Company consist of net debt, which includes lease liabilities disclosed in Note 18, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, retained profits and other reserves.

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The Directors review the capital structure regularly. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through new shares issues as well as raising of borrowings.

39. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

(i) Fair value of the Group’s financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group’s financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Directors use market-observable data to the extent it is available. For instruments with significance, the Directors determine the appropriate valuation techniques and inputs for fair value measurements and works closely with the qualified valuer to establish the appropriate valuation techniques and inputs to the model.

Except for financial assets at FVTPL and financial liabilities at FVTPL as set out below, there is no financial instrument measured at fair value on a recurring basis.

Financial assets

	NOTE	Fair value as of			Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
		December 31,					
		2022	2023	2024			
		RMB'000	RMB'000	RMB'000			
Structured deposits	25	—	—	26,077	Level 2	Redemption value quoted by banks	N/A
Investment in an unlisted company	25	4,891	3,386	2,981	Level 3	Market approach, a combination of observable and unobservable inputs	Discount for lack of marketability; market multiples
		—	—	—			
		4,891	3,386	29,058			

Financial liabilities

	NOTE	As of December 31,			Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationships of unobservable inputs to fair value
		2022	2023	2024				
		RMB'000	RMB'000	RMB'000				
Financial liabilities at FVTPL								
Series A Financing	31	265,255	337,702	493,566	Level 3	Discounted cash flow model, PWERM and OPM	Discount rate	The higher the discount rate, the lower the fair value, and vice versa (Note i)
Series A+ Financing	31	47,714	59,376	84,530	Level 3	Discounted cash flow model, PWERM and OPM	Discount rate	The higher the discount rate, the lower the fair value, and vice versa (Note ii)
Series B Financing	31	84,569	97,364	116,389	Level 3	Discounted cash flow model, PWERM and OPM	Discount rate	The higher the discount rate, the lower the fair value, and vice versa (Note iii)
Series C Financing	31	218,203	212,336	164,687	Level 3	Discounted cash flow model, PWERM and OPM	Discount rate	The higher the discount rate, the lower the fair value, and vice versa (Note iv)

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Notes:

- i. If the discount rate was 1% higher to 19.00% or 1% lower to 17.00% while holding all other variables constant, the carrying amount of financial liabilities at FVTPL of Series A Financing would decrease by RMB28,050,000 or increase by RMB32,223,000 as of December 31, 2022.

If the discount rate was 1% higher to 18.50% or 1% lower to 16.50% while holding all other variables constant, the carrying amount of financial liabilities at FVTPL of Series A Financing would decrease by RMB31,718,000 or increase by RMB36,567,000 as of December 31, 2023.

If the discount rate was 1% higher to 17.00% or 1% lower to 15.00% while holding all other variables constant, the carrying amount of financial liabilities at FVTPL of Series A Financing would decrease by RMB43,563,000 or increase by RMB50,840,000 as of December 31, 2024.

- ii. If the discount rate was 1% higher to 19.00% or 1% lower to 17.00% while holding all other variables constant, the carrying amount of financial liabilities at FVTPL of Series A+ Financing would decrease by RMB4,605,000 or increase by RMB5,307,000 as of December 31, 2022.

If the discount rate was 1% higher to 18.50% or 1% lower to 16.50% while holding all other variables constant, the carrying amount of financial liabilities at FVTPL of Series A+ Financing would decrease by RMB5,290,000 or increase by RMB6,109,000 as of December 31, 2023.

If the discount rate was 1% higher to 17.00% or 1% lower to 15.00% while holding all other variables constant, the carrying amount of financial liabilities at FVTPL of Series A+ Financing would decrease by RMB7,353,000 or increase by RMB8,591,000 as of December 31, 2024.

- iii. If the discount rate was 1% higher to 19.00% or 1% lower to 17.00% while holding all other variables constant, the carrying amount of financial liabilities at FVTPL of Series B Financing would decrease by RMB5,867,000 or increase by RMB6,631,000 as of December 31, 2022.

If the discount rate was 1% higher to 18.50% or 1% lower to 16.50% while holding all other variables constant, the carrying amount of financial liabilities at FVTPL of Series B Financing would decrease by RMB6,653,000 or increase by RMB7,587,000 as of December 31, 2023.

If the discount rate was 1% higher to 17.00% or 1% lower to 15.00% while holding all other variables constant, the carrying amount of financial liabilities at FVTPL of Series B Financing would decrease by RMB8,896,000 or increase by RMB10,395,000 as of December 31, 2024.

- iv. If the discount rate was 1% higher to 19.00% or 1% lower to 17.00% while holding all other variables constant, the carrying amount of financial liabilities at FVTPL of Series C Financing would decrease by RMB4,383,000 or increase by RMB5,010,000 as of December 31, 2022.

If the discount rate was 1% higher to 18.50% or 1% lower to 16.50% while holding all other variables constant, the carrying amount of financial liabilities at FVTPL of Series C Financing would decrease by RMB5,102,000 or increase by RMB5,843,000 as of December 31, 2023.

If the discount rate was 1% higher to 17.00% or 1% lower to 15.00% while holding all other variables constant, the carrying amount of financial liabilities at FVTPL of Series C Financing would decrease by RMB6,997,000 or increase by RMB8,181,000 as of December 31, 2024.

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(ii) Reconciliation of Level 3 fair value measurements

Financial assets at FVTPL

	Investment in unlisted companies
	<i>RMB’000</i>
At January 1, 2022	5,000
Change in fair value	(109)
At December 31, 2022	4,891
Change in fair value	(305)
Disposals	(1,200)
At December 31, 2023	3,386
Change in fair value	(255)
Disposals	(150)
At December 31, 2024	<u>2,981</u>

Details of reconciliation of Level 3 fair value measurement for the financial liabilities at FVTPL are set out in Note 31. Of the total gains or losses for the year ended December 31, 2022, 2023 and 2024 included in profit or loss, RMB109,000 loss, RMB305,000 loss and RMB255,000 loss related to investment in an unlisted company held at the end of each reporting period. Fair value gains or losses on investment in unlisted companies are included in “other gains and losses, net”.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Historical Financial Information approximate their respective fair values.

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING

The table below details changes in the Group’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group’s consolidated statements of cash flows as cash flows from financing activities.

	Lease liabilities	Share issue costs for [REDACTED]	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As of January 1, 2022	52,287	—	52,287
Financing cash flows	(27,470)	—	(27,470)
Interest expense	2,004	—	2,004
Addition of a lease	13,819	—	13,819
Early termination of leases	(1,155)	—	(1,155)
As of December 31, 2022	39,485	—	39,485
As of December 31, 2022	39,485	—	39,485
Financing cash flows	(25,602)	—	(25,602)
Interest expense	1,449	—	1,449
Addition of a lease	18,537	—	18,537
Early termination and modification of leases	(5,252)	—	(5,252)
As of December 31, 2023	28,617	—	28,617
As of December 31, 2023	28,617	—	28,617
Financing cash flows	(20,270)	(378)	(20,648)
Interest expense	1,020	—	1,020
Addition of a lease	11,088	—	11,088
Early termination of leases	(1,155)	—	(1,155)
Deferred share issue costs for [REDACTED]	—	378	378
As of December 31, 2024	<u>19,300</u>	<u>—</u>	<u>19,300</u>

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41. RELATED PARTY TRANSACTIONS AND BALANCES

The Directors are of the view that the following companies are related parties that had material transactions or balances with the Group during the Track Record Period.

(a) Names and relationships of related parties

<u>Names</u>	<u>Relationship</u>
Zhiwu Shengyuan (<i>Note</i>)	An associate
Wu’er Rumeng	An associate

Note: As disclosed in Note 36, Zhiwu Shengyuan became a non-wholly owned subsidiary of the Company since January 1, 2024.

(b) Transactions with related parties

The Group and the Company have following transactions with related parties:

<u>Name of related parties</u>	<u>Nature of transactions</u>	<u>Year ended December 31,</u>		
		<u>2022</u>	<u>2023</u>	<u>2024</u>
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Zhiwu Shengyuan	Sales of products	—	518	—
Wu’er Rumeng	Sales of products	—	—	538
Total		<u>—</u>	<u>518</u>	<u>538</u>

(c) Balances with related parties

The Group and the Company

Amounts due from related parties

<u>Name of related parties</u>	<u>Nature of transactions</u>	<u>As of December 31,</u>		
		<u>2022</u>	<u>2023</u>	<u>2024</u>
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Zhiwu Shengyuan	Trade receivables	—	451	—
Wu’er Rumeng	Trade receivables	—	—	488
	Less: allowance for credit losses	—	—	(14)
Total		<u>—</u>	<u>451</u>	<u>474</u>

Amounts due from related parties as of December 31, 2022, 2023 and 2024 were in trade-nature, unsecured, interest free and repayable on demand.

(d) Compensation of key management personnel of the Group

	<u>Year ended December 31,</u>		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Salaries, allowances and other benefits	4,256	5,197	5,354
Performance related bonuses	—	124	—
Retirement benefits	232	305	330
Share-based payment expenses	9,276	—	—
Total	<u>13,764</u>	<u>5,626</u>	<u>5,684</u>

Further details of directors’ and the chief executive’s emoluments are included in Note 13 to the Historical Financial Information.

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(e) Balances with subsidiaries

The Company

Amounts due from subsidiaries

Current:	Nature of transactions	As of December 31,		
		2022	2023	2024
		RMB'000	RMB'000	RMB'000
Trade nature	Trade receivables	62,930	45,860	44,592
	Less: allowance for credit losses	(6,968)	(19,906)	(5,948)
		55,962	25,954	38,644
Non-trade nature	Other receivables	13,140	518	7,797
	Less: allowance for credit losses	(13,063)	(441)	(4,989)
		77	77	2,808
Total		56,039	26,031	41,452

The following is an aged analysis of gross carrying amount of trade receivables due from subsidiaries, presented based on the respective revenue recognition dates at the end of each reporting period.

	As of December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Within 1 month	8,430	15,855	41,945
1 month to 6 months	16,586	6,206	2,647
6 months to 1 year	28,600	14,653	—
Over 1 year	9,314	9,146	—
	62,930	45,860	44,592

Non-current:	Nature of transactions	As of December 31,		
		2022	2023	2024
		RMB'000	RMB'000	RMB'000
Non-trade nature	Other receivables	8,100	11,313	20,783
	Less: allowance for credit losses	(4,378)	(11,207)	(20,076)
Total		3,722	106	707

Amount due to a subsidiary

	Nature of transactions	As of December 31,		
		2022	2023	2024
		RMB'000	RMB'000	RMB'000
Non-trade nature (Note)	Other payables	—	20,000	—
Total		—	20,000	—

Note: Amount due to a subsidiary as at December 31, 2023 is unsecured, interest free and repayable on demand. This amount is fully settled before December 2024.

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42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

As of the date of this report, the Company has direct and indirect equity interests in the following subsidiaries:

Name of the subsidiaries	Place/date of establishment	Issued and fully paid registered capital	Equity interest attributable to the Company			Date of the report	Principal activities
			December 31, 2022	2023	2024		
Tianjin Youleting Cultural Development Co., Ltd.(Note i)	PRC November 8, 2019	Registered capital of RMB5,000,000 and paid capital of nil	100%	100%	100%	[100%]	Sales of toys
Tianjin Qingyunhe Cultural Development Co., Ltd.(Note i)	PRC December 18, 2019	Registered capital of RMB5,000,000 and paid capital of nil	100%	100%	100%	[100%]	Sales of toys
Chengdu Huanqu Guangnian Cultural Development Co., Ltd.(Note i)	PRC June 29, 2021	Registered capital of RMB100,000 and paid capital of nil	100%	100%	100%	[100%]	Sales of toys
Huanqu Guangnian (Beijing) Cultural Development Co., Ltd.(Note i)	PRC August 31, 2021	Registered capital of RMB100,000 and paid capital of nil	100%	100%	100%	[100%]	Sales of toys
Suzhou Zeruofang Cultural Development Co., Ltd. (Note i)	PRC October 8, 2021	Registered capital of RMB30,000,000 and paid capital of RMB30,000,000	100%	100%	100%	[100%]	Enterprise consultation
52TOYS (HK) Co. Limited (Note ii)	Hong Kong October 19, 2021	Registered capital of HKD100 and paid capital of HKD100	100%	100%	100%	[100%]	Sales of toys
Huanqu Guangnian (Shanghai) Trading Co., Ltd.(Note i)	PRC December 7, 2021	Registered capital of RMB100,000 and paid capital of nil	100%	100%	100%	[100%]	Sales of toys
Beijing Chaozhi Hele Culture Development Co., Ltd.(Note i)	PRC September 14, 2022	Registered capital of RMB500,000 and paid capital of nil	N/A	100%	100%	[100%]	Sales of toys
Changxing Qingzhou Rufeng Trading Co., Ltd.(Note i)	PRC August 7, 2023	Registered capital of RMB100,000 and paid capital of nil	N/A	100%	100%	[100%]	Sales of toys
Zhiwu Shengyuan (Note i)	PRC November 23, 2023	Registered capital of RMB5,000,000 and paid capital of RMB2,750,000	N/A	N/A	55%	[55%]	Sales of toys
Xi'an Tiancheng Zhijia Cultural Development Co., Ltd.(Note i)	PRC January 4, 2024	Registered capital of RMB1,000,000 and paid capital of RMB550,000	N/A	N/A	55%	[55%]	Sales of toys
Changxing Yiguan Xinrong Trading Co., Ltd.(Note i)	PRC March 4, 2024	Registered capital of RMB1,000,000 and paid capital of RMB1,000,000	N/A	N/A	100%	[100%]	Sales of toys

Notes:

- No audited statutory financial statements were available for the years ended December 31, 2022, 2023 and 2024 as there was no requirement to issue audited accounts by the local authorities.
- The statutory financial statements of the entity for the period from incorporation to December 31, 2022 and for the year ended December 31, 2023 prepared under Small and Medium-sized Entity Financial Reporting Standard issued by the

APPENDIX I

ACCOUNTANTS’ REPORT

HKICPA (“SME-FRS”) were audited by Huang Tak Wai Certified Public Accountant (Practising), while the statutory financial statements of the entity for the year ended December 31, 2024 prepared under SME-FRS were audited by Walton CPA & Co.

iii. None of the subsidiaries had issued any debt securities at the end of each reporting period during the Track Record Period.

43. INVESTMENTS IN SUBSIDIARIES

The Company

	As of December 31,		
	2022	2023	2024
	RMB’000	RMB’000	RMB’000
Cost of investments	33,167	33,167	37,413

44. EVENTS AFTER THE REPORTING PERIOD

Series C+ Financing

In May 2025, the Company entered into new investment agreements (the “Series C+ Financing”) with two independent investors (collectively as the “Series C+ Investors”), pursuant to which the Series C+ Investors shall make total investments of RMB23,268,000 to acquire from new share capital of approximately RMB55,000 of the Company. All Shares acquired by Series C+ Investors are Shares with Preferential Rights. The cash consideration was fully paid to the Company in May 2025.

Capitalization Issuance of Shares

Pursuant to the resolutions in writing of the shareholders of the Company passed on May 16, 2025, it is resolved that the Company was authorized to capitalize the amount of RMB40,000,000 share premium to issue additional 17,600,000 ordinary shares and 22,400,000 Shares with Preferential Rights at par value of RMB1.00 each. The Shares with Preferential Rights are measured as financial liabilities at FVTPL.

Other than aforementioned, there were no other significant events subsequent to December 31, 2024 that need to be disclosed.

45. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of its companies now comprising the Group in respect of any period subsequent to December 31, 2024.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the accountants’ report on the historical financial information of the Group for the three years ended December 31, 2024 (the “Accountants’ Report”), prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the Company’s Reporting Accountants as set out in Appendix I to this document and is included in this document for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this document and the Accountants’ Report set out in Appendix I to this document, respectively.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company prepared in accordance with paragraph 4.29(1) of the Listing Rules is set out below to illustrate the effect of the proposed [REDACTED] on the audited consolidated tangible assets less liabilities of the Group attributable to owners of the Company as at December 31, 2024 as if the [REDACTED] had taken place on that day.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2024 or any future dates.

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company is prepared based on the audited consolidated tangible assets less liabilities of the Group attributable to owners of the Company as at December 31, 2024 as derived from the Accountants’ Report of the Group, the text of which is set out in Appendix I to this document, and adjusted as described below:

	Audited consolidated tangible assets less liabilities of the Group attributable to owners of the Company as at December 31, 2024	Estimated [REDACTED] from the [REDACTED]	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2024	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2024 per Share
	<i>RMB’000</i> <i>(Note 1)</i>	<i>RMB’000</i> <i>(Note 2)</i>	<i>RMB’000</i>	<i>RMB</i> <i>(Note 3)</i> <i>HK\$</i> <i>(Note 4)</i>
Based on an [REDACTED] of HK\$[REDACTED] per Share	(487,567)	[REDACTED]	[REDACTED]	[REDACTED][REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per Share	(487,567)	[REDACTED]	[REDACTED]	[REDACTED][REDACTED]

Notes:

- The amount is based on the deficits of the Group attributable to owners of the Company as at December 31, 2024 amounted to RMB452,090,000, with adjustments for intangible assets of the Group attributable to owners of the Company as at December 31, 2024 of RMB35,477,000 extracted from the Accountants’ Report of the Group set out in Appendix I to this document.

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UNAUDITED PRO FORMA FINANCIAL INFORMATION

2. The estimated [REDACTED] from the [REDACTED] are based on [REDACTED] new Shares to be issued at the [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per new Share, being the lower limit and higher limit of the indicative range of the [REDACTED], respectively, after deduction of the estimated [REDACTED] (including [REDACTED] and other related expenses expected to be incurred by the Group subsequent to December 31, 2024). The calculation of such estimated [REDACTED] does not take into account any Shares which may be allotted and issued pursuant to the exercise of [REDACTED].

For the purpose of calculating the estimated [REDACTED] from the [REDACTED], the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK\$1.00 to [RMB0.9215], which was the exchange rate prevailing on [May 16, 2025] with reference to the rate published by the People’s Bank of China. No representation is made that Hong Kong dollars have been, would have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2024 per Share is calculated based on [REDACTED] Shares, being the number of Shares in issue immediately upon completion of the [REDACTED], assuming that the capitalization of share premium had been completed. Further details of the capitalization of share premium are set out in the “HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE” section of the document. It does not take into account (i) any Share which may be allotted and issued upon the exercise of the [REDACTED], or (ii) the shares with preferential rights issued for Series C+ Financing; (iii) termination of the preferential rights of shares with preferential rights upon completion of [REDACTED].
4. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is converted from RMB into Hong Kong dollars at the rate of HK\$1.00 to [RMB0.9215], which was the exchange rate prevailing on [May 16, 2025] with reference to the rate published by the People’s Bank of China. No representation is made that the RMB have been, would have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
5. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2024 to reflect any trading result or any transactions of the Group entered into subsequent to December 31, 2024. In particular, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as shown on the table above have not been adjusted to illustrate the effect of the followings:
- (i) Subsequent to December 31, 2024, pursuant to the Series C+ Investment agreement, the Company issued 54,748 shares with preferential rights at total consideration of RMB23,268,000 to third party investors.
 - (ii) The preferential rights of shares with preferential rights shall be permanently terminated upon the Group’s completion of a qualified [REDACTED].

The combined effect of above events would have increased the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2024 by RMB882,440,000, being the sum of carrying amount of shares with preferential rights as at December 31, 2024 of RMB859,172,000 and the total consideration of RMB23,268,000 for the shares with preferential rights issued by the Company for Series C+ Financing, and would have increased the total Shares in issue by 28,120,000 Shares to a total number of [REDACTED] Shares in issue, taking into account the effect of abovementioned capitalization of share premium.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at December 31, 2024 taking into account of the above subsequent events would be RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] and RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on an [REDACTED] of HK\$[REDACTED] per [REDACTED], respectively, assuming the amounts denominated in RMB could have been converted into HK\$1.00 at the rate of [RMB0.9215] to HK\$1.00, which was the exchange rate prevailing on [May 16, 2025] with reference to the rate published by the People’s Bank of China.

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UNAUDITED PRO FORMA FINANCIAL INFORMATION

B. ASSURANCE REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants’ assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group’s unaudited pro forma financial information prepared for the purpose of incorporation in this document.

Deloitte.

德勤

INDEPENDENT REPORTING ACCOUNTANTS’ ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of 52TOYS Development CO., LTD.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of 52TOYS Development Co., Ltd. (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at December 31, 2024 and related notes as set out on pages II-1 to II-2 of Appendix II to the document issued by the Company dated [date] (the “document”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the document.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed [REDACTED] of the Company (the “[REDACTED]”) on the Group’s financial position as at December 31, 2024 as if the [REDACTED] had taken place at December 31, 2024. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s historical financial information for each of the three years ended December 31, 2024, on which an accountants’ report set out in Appendix I to the document has been published.

Directors’ Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements” issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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UNAUDITED PRO FORMA FINANCIAL INFORMATION

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a document” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at December 31, 2024 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants’ judgment, having regard to the reporting accountants’ understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

[Deloitte Touche Tohmatsu]

Certified Public Accountants

Hong Kong,

[Date]

APPENDIX III

TAXATION AND FOREIGN EXCHANGE

PRC TAXATION

Income tax and capital gains tax of holders of the H shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of the H Shares are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice and has not taken into account the expected change or amendment to the relevant laws or policies. The discussion has no intention to cover all possible tax consequences resulting from the investment in H Shares, nor does it take the specific circumstances of any particular investor into account, some of which may be subject to special regulations. Accordingly, you should consult your own tax advisor regarding the tax consequences of an investment in H Shares.

The discussion is based upon laws and relevant interpretations in effect as of the date of the Latest Practicable Date, which is subject to change and may have retrospective effect.

Taxation on Dividends

Individual Investors

Under the provisions of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》), last amended on August 31, 2018, and the Regulations on Implementation of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》), last amended on December 18, 2018 (collectively referred to as the “IIT Law”), dividends disbursed by Chinese enterprises are subject to a flat individual income tax rate of 20%. For foreign individuals who are not residents of China, dividends received from a Chinese enterprise are generally taxed at 20%, unless there are specific exemptions granted by the State Council’s tax authority or reductions under an applicable tax treaty.

According to the Announcement of State Taxation Administration on Promulgation of the Administrative Measures on Non-resident Taxpayers Enjoying Treaty Benefits (《國家稅務總局關於發佈〈非居民納稅人享受協定待遇管理辦法〉的公告》), which came into effect on January 1, 2020, non-resident taxpayers claiming treaty benefits shall be handled in accordance with the principles of “self-assessment, claiming benefits, retention of the relevant materials for future inspection”. Where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding through the withholding agent, simultaneously gather and retain the relevant materials pursuant to the provisions of these Measures for future inspection, and accept follow-up administration by the tax authorities. For withholding at source and designated withholding, a non-resident taxpayer asserting that it satisfies the criteria for claiming treaty benefits and need to claim such benefits shall complete an “Information Report on Non-resident Taxpayers Claiming Treaty Benefits” truthfully, submit to the withholding agent voluntarily, gather and retain the relevant materials pursuant to the relevant provisions.

In accordance with the Arrangement between the Mainland and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《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, the PRC Government has the authority to impose taxes on dividends paid by a PRC company to Hong Kong residents, including both natural persons and legal entities. The tax levied shall not exceed 10% of the total dividends payable by the PRC company. However, if a Hong Kong resident directly holds 25% or more of the equity interest in a PRC company and meets certain conditions as the beneficial owner of the equity, the tax imposed shall not exceed 5% of the total dividends payable by the PRC company.

The Fifth Protocol of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《〈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〉第五議定書》), in effect since December 6, 2019, introduces specific criteria determining entitlement to treaty benefits. According to this protocol,

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TAXATION AND FOREIGN EXCHANGE

treaty benefits will not be granted if, upon careful consideration of all relevant facts and conditions, it is reasonably determined that obtaining these benefits was a primary purpose of the arrangement or transactions, thereby providing direct or indirect benefits under the Arrangement. Exceptions are made when such benefits align with the Arrangement’s relevant objectives and goals.

Additionally, the application of the dividend clause of tax agreements is bound by the stipulations outlined in the PRC tax laws and regulations, including the guidelines specified in the Notice of the State Taxation Administration on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81). Compliance with these regulations is essential in determining the taxation applicable to dividends under the Arrangement.

Enterprise Investors

Pursuant to the provisions outlined in the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), enacted by the National People’s Congress of the PRC (NPC) on March 16, 2007, and enforced from January 1, 2008, subsequently amended on February 24, 2017, and December 29, 2018, and in alignment with the Implementation Provisions of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), promulgated by the State Council on December 6, 2007, and effective from January 1, 2008, last amended on December 6, 2024 and effective on January 20, 2025 (collectively referred to as the “EIT Law”), it is established that a non-resident enterprise is generally liable to a 10% enterprise income tax on income sourced within the PRC. Such income includes dividends and bonuses received from a PRC resident enterprise. This taxation applies to non-resident enterprises that lack a physical establishment or premises in the PRC. Alternatively, if an establishment or premise exists within the PRC, but the PRC-sourced income is unrelated to said establishment or premise, it is subject to the aforementioned taxation.

The withholding tax for non-resident enterprises is mandated to be deducted at the source, whereby the entity making the payment assumes the role of the withholding agent. Consequently, the withholding agent is obligated to withhold the income tax from the payment or due payment each time it is disbursed or becomes due.

The Circular of the State Taxation Administration (STA) on Issues Relating to the Withholding and Remitting of Enterprise Income Tax on Dividends Paid by PRC Resident Enterprises to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897), which was issued by the STA and implemented on November 6, 2008, further clarified that a PRC-resident enterprise must withhold corporate income tax at a rate flat of 10% on the dividends of 2008 and onwards that it distributes to overseas non-resident enterprise shareholders of H Shares. In addition, the Response to Issues on Levying Enterprise Income Tax on Dividends Derived by Non-resident Enterprise from Holding Stock such as B-shares (《關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆》) (Guo Shui Han [2009] No. 394) which was issued by the STA and implemented on July 24, 2009, further provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold enterprise income tax at a rate of 10% on dividends of 2008 and onwards that it distributes to non-resident enterprises. Such tax rates may be further changed pursuant to the tax treaty or agreement that China has concluded with relevant jurisdictions, where applicable. Accordingly, dividends paid to non-PRC resident enterprise (including HKSCC Nominees) shall be subject to withholding enterprise income tax at a rate of 10%.

In accordance with the Arrangement between the Mainland and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, the PRC Government is authorized to impose taxes on dividends disbursed by a PRC company to Hong Kong residents, including both individuals and legal entities, not exceeding 10% of the total dividends payable by the PRC company. If a Hong Kong resident directly holds 25% or more of the equity interest in a PRC company, the tax shall not surpass 5% of the total dividends if the Hong Kong resident qualifies as the beneficial owner of the equity, and specific conditions are met.

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Furthermore, the Fifth Protocol of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, introduces additional criteria for qualifying for treaty benefits. While other provisions may exist within the Arrangement, treaty benefits shall not be granted for relevant gains if, based on all relevant facts and conditions, it is reasonably determined that one of the main purposes of the arrangement or transactions, which result in direct or indirect benefits under the Arrangement, is to obtain such treaty benefits. This exception applies unless the grant of benefits aligns with the objectives and goals outlined in the Arrangement.

It is important to note that the application of the dividend clause of tax agreements is contingent upon compliance with PRC tax laws and regulations, including the guidelines provided in the Notice of the State Taxation Administration on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (Guo Shui Han [2009] No. 81).

Tax Treaties

Non-resident investors residing in jurisdictions that have established treaties or arrangements for the avoidance of double taxation with the PRC may qualify for a reduction in the PRC enterprise income tax levied on dividends received from PRC companies. Currently, the PRC has entered into Avoidance of Double Taxation Treaties or Arrangements with several countries and regions, including the Hong Kong Special Administrative Region, Macau Special Administrative Region, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom, and the United States.

Non-PRC resident enterprises eligible for preferential tax rates under these relevant taxation treaties or arrangements are required to submit an application to the PRC tax authorities for a refund of the enterprise income tax that exceeds the agreed tax rate. The approval of the refund application is subject to the evaluation and decision of the PRC tax authorities.

Taxation on Share Transfer

Value-Added Tax and Local Surcharges

Under the guidelines outlined in the Notice on the Full Implementation of the Pilot Program for Transition from Business Tax to Value-Added Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No. 36) (referred to as “Circular 36”), effective from May 1, 2016, and subsequently amended on July 11, 2017, December 25, 2017, and March 20, 2019, individuals and entities conducting service transactions within the PRC are obligated to pay Value-Added Tax (VAT). “Sales of services within the PRC” are defined as transactions where either the service provider or the recipient is situated within the PRC.

Furthermore, Circular 36 specifies that the transfer of financial products, including the ownership transfer of marketable securities, is subject to a VAT rate of 6% on the taxable income. Taxable income, in this context, refers to the sales price balance after deducting the purchase price. This VAT obligation applies to both general and foreign VAT taxpayers. Notably, individuals are exempt from VAT obligations when engaging in the transfer of financial products.

As per the aforementioned regulations, non-resident individuals selling or disposing of H shares are exempt from VAT in the PRC. However, if the holders are non-resident enterprises, they may avoid VAT in the PRC only if the buyers of the H shares are individuals or entities located outside of the PRC. Conversely, the holders might be subject to VAT in the PRC if the buyers of the H shares are individuals or entities situated within the PRC.

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Income Taxes

Individual investors

Under the IIT Law, gains arising from the transfer of equity interests in PRC resident enterprises are subject to individual income tax at a rate of 20%.

However, in accordance with the Circular of the Ministry of Finance (MOF) and the STA on Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No. 61), issued jointly by the MOF and STA on March 30, 1998, gains obtained by individuals from the transfer of shares of listed companies have been temporarily exempted from individual income tax since January 1, 1997.

However, on December 31, 2009, the MOF, the STA, and the CSRC jointly issued the Circular on Related Issues on Levying Individual Income Tax over the Income Received by Individuals from the Transfer of Listed Shares Subject to Sales Limitation (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) (Cai Shui [2009] No. 167). This circular, effective from January 1, 2010, stipulates that individuals’ income derived from the transfer of listed shares acquired through public offerings and trading on the Shanghai Stock Exchange and the Shenzhen Stock Exchange remains exempt from individual income tax. This exemption applies to shares not subject to sales restrictions, as defined in the Supplementary Notice on Issues Concerning the Individual Income Tax on Individuals’ Income from the Transfer of Restricted Stocks of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》) (Cai Shui [2010] No. 70), jointly issued by the three aforementioned departments and effective from November 10, 2010.

As of the Latest Practicable Date, there are no provisions expressly stating that individual income tax shall be imposed on non-PRC resident individuals for the transfer of shares in PRC resident enterprises listed on overseas stock exchanges.

Enterprise investors

In accordance with the Enterprise Income Tax (EIT) Law and the Implementation Provisions of the Enterprise Income Tax Law of the PRC, non-resident enterprises are typically subject to a 10% enterprise income tax on income sourced within the PRC. This includes gains realized from the disposal of equity interests in a PRC resident enterprise. However, this taxation applies only if the non-resident enterprise does not maintain a physical establishment or premises in the PRC, or if it does have such establishments in the PRC, but its PRC-sourced income is not genuinely connected with those establishments.

The withholding of income tax for non-resident enterprises is executed at the source, with the entity making the payment acting as the withholding agent. This withholding agent is obliged to deduct the income tax from each payment or due payment made to the non-resident enterprise. It’s important to note that the tax liability may be reduced or exempted in accordance with applicable tax treaties or agreements on the avoidance of double taxation.

Stamp Duty

In compliance with the PRC Stamp Duty Law (《中華人民共和國印花稅法》), which was promulgated on June 10, 2021, and enforced from July 1, 2022 (referred to as the “Stamp Duty Law”), all entities and individuals involved in securities transactions within the PRC are obligated to pay stamp duty as per the regulations outlined in the Stamp Duty Law. Consequently, the stipulations concerning stamp duty applied to the transfer of shares of PRC-listed companies do not extend to the transfer and disposal of H Shares by non-PRC investors outside the PRC.

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Estate duty

Under prevailing PRC legislation, there is presently no imposition of estate duty within the jurisdiction.

Major Taxes on the Company in the PRC

Please refer to the section headed “Regulatory Overview” of this document.

FOREIGN EXCHANGE

The lawful currency of the PRC is Renminbi, which is currently subject to foreign exchange control and cannot be freely converted into foreign currency. The State Administration of Foreign Exchange (the “SAFE”), with the authorization of the People’s Bank of China (the “PBOC”), is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

The Regulations of the PRC on the Management of Foreign Exchange (《中華人民共和國外匯管理條例》), the “Regulations on the Management of Foreign Exchange”), which was promulgated by the State Council on January 29, 1996 and effective on April 1, 1996, classifies all international payments and transfers into current items and capital items. Most of the current items are not subject to the approval of foreign exchange administrative authorities, while capital items are subject to the approval of foreign exchange administrative authorities. According to the Regulations on the Management of Foreign Exchange as amended on January 14, 1997 and August 5, 2008, the PRC will not impose any restriction on international current payments and transfers.

The Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》), the “Settlement Regulations”), which was promulgated by the PBOC on June 20, 1996 and effective on July 1, 1996, removes other restrictions on convertibility of foreign exchange under current items, while imposing existing restrictions on foreign exchange transactions under capital items.

According to the Announcement on Improving the Reform of the Renminbi Exchange Rate Formation Mechanism (《關於完善人民幣匯率形成機制改革的公告》) (PBOC Announcement [2005] No. 16), which was issued by the PBOC on July 21, 2005 and effective on the same date, the PRC began to implement a managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and adjusted with reference to a basket of currencies from July 21, 2005. Therefore, the Renminbi exchange rate was no longer pegged to the U.S. dollar. The PBOC would publish the closing price of the exchange rate of the Renminbi against trading currencies such as the U.S. dollar in the interbank foreign exchange market after the closing of the market on each working day, as the central parity of the currency against Renminbi transactions on the following working day.

On August 5, 2008, the State Council promulgated the revised Regulation on the Management of Foreign Exchange, which has made substantial changes to the foreign exchange supervision system of the PRC. First, it has adopted an approach of balancing the inflow and outflow of foreign exchange. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities; second, it has improved the RMB exchange rate formation mechanism based on market supply and demand; third, in the event that international balance of payment suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures against international balance of payment; fourth, it has enhanced the supervision and administration of foreign exchange transactions and grant extensive authorities to the SAFE to enhance its supervisory and administrative powers.

APPENDIX III

TAXATION AND FOREIGN EXCHANGE

According to the relevant laws and regulations in the PRC, PRC enterprises (including foreign investment enterprises) which need foreign exchange for current item transactions may, without the approval of the foreign exchange administrative authorities, effect payment from foreign exchange accounts opened at the designated foreign exchange banks, on the strength of valid transaction receipt or proof. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange (such as our Company) may, on the strength of resolutions of the Board of Directors or the shareholders’ meeting on the distribution of profits, effect payment from foreign exchange accounts at the designated foreign exchange banks or effect exchange and payment at the designated foreign exchange banks.

On October 23, 2014, the State Council promulgated the Decisions on Matters including Canceling and Adjusting a Batch of Administrative Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) (Guo Fa [2014] No. 50), which decided to cancel the approval requirement of the SAFE and its branches for the remittance and settlement of the proceeds raised from the overseas listing of the foreign shares into RMB domestic accounts.

On December 26, 2014, the SAFE implemented the Notice of the SAFE on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) (Hui Fa [2014] No. 54), pursuant to which, a domestic company shall, within 15 business days from the date of the end of its overseas listing issuance, register the overseas listing with the Administration of Foreign Exchange at the place of its establishment; the proceeds from an overseas listing of a domestic company may be remitted to the PRC or deposited overseas, but the use of the proceeds shall be consistent with the contents as specified in the document and other disclosure documents.

According to the Guidelines for the Foreign Exchange Business under the Capital Account (2024) (《資本項目外匯業務指引(2024年版)》) issued by SAFE on April 3, 2024, in principle, the funds raised by overseas listings of domestic companies should be repatriated to China in a timely manner, and can be repatriated in RMB or foreign currency. The use of funds shall be consistent with the relevant contents listed in the document or corporate bond offering documents, shareholder circulars, resolutions of the board of directors or shareholders’ meeting and other publicly disclosed documents. Domestic companies using the funds raised from overseas listings to carry out overseas direct investment, overseas securities investment, overseas lending and other businesses shall comply with the relevant foreign exchange management regulations.

According to the Notice of the SAFE on Further Simplifying and Improving Policies for the Foreign Exchange Administration of 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》) (Hui Fa [2015] No. 13) promulgated by the SAFE on February 13, 2015 and took effect on June 1, 2015, and amended on December 30, 2019, two of the administrative examination and approval items, being the confirmation of foreign exchange registration under domestic direct investment and the confirmation of foreign exchange registration under overseas direct investment have been canceled, the foreign exchange registration under domestic direct investment and overseas direct investment shall be directly examined and handled by banks. The SAFE and its branch offices shall indirectly regulate the foreign exchange registration of direct investment through banks.

According to the Notice of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Administration of Foreign Exchange Settlement under Capital Accounts (《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》) (Hui Fa [2016] No. 16) issued by the SAFE and came into effect on June 9, 2016, and last amended on December 4, 2023, the settlement of foreign exchange receipts under the capital account (including the foreign exchange capital, external debts and funds recovered from overseas listing, etc.) that are subject to discretionary settlement as already specified by relevant policies may be handled at banks based on the domestic institutions’ actual requirements for business operation. The proportion of discretionary settlement of domestic institutions’ foreign exchange

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receipts under the capital account is temporarily determined as 100%. The SAFE may, based on the international balance of payments, adjust the aforesaid proportion at appropriate time.

On January 26, 2017, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》) (Hui Fa [2017] No. 3) to further expand the scope of settlement for domestic foreign exchange loans, allow settlement for domestic foreign exchange loans with export background under goods trading; allow repatriation of funds under domestic guaranteed foreign loans for domestic utilization; allow settlement for domestic foreign exchange accounts of foreign institutions operating in the Free Trade Pilot Zones; and adopt the model of full-coverage RMB and foreign currency overseas lending management, where a domestic institution engages in overseas lending, the sum of its outstanding overseas lending in RMB and outstanding overseas lending in foreign currencies shall not exceed 30% of its owner’s equity in the audited financial statements of the preceding year.

On October 23, 2019, the SAFE issued the Circular of the State Administration of Foreign Exchange on Further Promoting Cross-border Trade and Investment Facilitation (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》) (Hui Fa [2019] No. 28), which stipulated that on the basis that investing foreign-funded 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 the Access of Foreign Investment (《外商投資准入特別管理措施(負面清單)》) are not violated and domestic invested projects are true and compliant.

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SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

PRC LAWS AND REGULATIONS

The PRC Legal System

The PRC legal system is based on the Constitution of the PRC (《中華人民共和國憲法》)(the “Constitution”) and is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments, laws of special administrative regions and international treaties of which the PRC Government is a signatory, and other regulatory documents. Court judgments do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

Pursuant to the Constitution and the Legislation Law of the PRC (2023 Revision) (《中華人民共和國立法法(2023修正)》) (the “Legislation Law”), the National People’s Congress of the People’s Republic of China (the “NPC”) and the Standing Committee of the NPC(the “SCNPC”) are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend the basic laws governing criminal and civil matters, State institutions and other matters. The SCNPC formulates and amends laws other than those required to be enacted by the NPC and to supplement and amend parts of the laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of the PRC administration and has the power to formulate administrative regulations based on the Constitution and laws. The people’s congresses of the provinces, autonomous regions and municipalities and their standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations. The people’s congresses of cities with districts and their respective standing committees may formulate local regulations with respect to urban and rural construction and administration, ecological civilization construction, historical and cultural protection, grassroots governance and other aspects according to the specific circumstances and actual needs of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions. If the law provides otherwise on the formulation of local regulations by cities divided into districts, those provisions shall prevail. Such local regulations of cities with districts will become enforceable after being reported to and approved by the standing committees of the people’s congresses of the relevant provinces or autonomous regions. The standing committees of the people’s congresses of the provinces or autonomous regions examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the Constitution, laws, administrative regulations and local regulations of such provinces or autonomous regions. Where, during the examination for approval of local regulations of cities divided into districts by the standing committees of the people’s congresses of the provinces or autonomous regions, conflicts are identified with the rules and regulations of the people’s governments of the provinces or autonomous regions concerned, a decision should be made by the standing committees of the people’s congresses of provinces or autonomous regions to resolve the issue. People’s congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the ethnic groups in the areas concerned.

The ministries, commissions of the State Council, the PBOC, the National Audit Office, institutions with administrative functions directly under the State Council, and other institutions stipulated by law may formulate rules and regulations within the power of their respective departments based on the laws, administrative regulations, decisions and rulings of the State Council. Matters governed by the departmental rules and regulations should be those for the enforcement of the laws, administrative regulations, decisions and rulings of the State Council. The people’s governments of provinces, autonomous regions and municipalities directly under the central government and cities divided into districts and autonomous

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regions may formulate rules, in accordance with laws, administrative regulations and relevant local regulations of provinces, autonomous regions and municipalities directly under the central government.

Pursuant to the Resolution of the SCNPC Providing an Improved Interpretation of the Law (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on June 10, 1981, issues related to the further clarification or supplement of laws or decrees should be interpreted by the SCNPC or provided by with decrees, issues related to the application of laws in a court trial should be interpreted by the Supreme People’s Court of the PRC, issues related to the application of laws in a prosecution process should be interpreted by the Supreme People’s Procuratorate, and the application of other laws and decrees in matters other than those involved in trial or prosecution process should be interpreted by the State Council and the competent authorities. The State Council and its ministries and commissions are also vested with the power to give interpretations of the administrative regulations and departmental rules which they have promulgated. At the regional level, the power to interpret regional laws and regulations is vested in the regional legislative and administrative authorities which promulgate such laws and regulations.

The PRC Judicial System

Under the Constitution, the Law of Organization of the People’s Courts of the PRC (2018 revision) (《中華人民共和國人民法院組織法(2018修訂)》) and the Law of Organization of the People’s Procuratorate of the PRC (2018 revision) (《中華人民共和國人民檢察院組織法(2018修訂)》), the people’s courts of the PRC are classified into the Supreme People’s Court, the local people’s courts at various levels, and other special people’s courts. The local people’s courts at various levels are divided into three levels, namely, the primary people’s courts, the intermediate people’s courts and the higher people’s courts. The primary people’s courts may set up a number of people’s tribunals based on the facts of the region, population and cases. The Supreme People’s Court is the highest judicial authority. The Supreme People’s Court shall supervise the judicial work of the local people’s courts at all levels and special people’s courts, and people’s courts at higher levels shall supervise the judicial work of people’s courts at lower levels. The Chinese People’s Procuratorates are divided into the Supreme People’s Procuratorate, local people’s procuratorates at various levels, and specialized people’s procuratorates such as the Military Procuratorate. The Supreme People’s Procuratorate is the highest procuratorial organ. The Supreme People’s Procuratorate directs the work of the local people’s procuratorates and specialized people’s procuratorates at all levels, and the people’s procuratorates at higher levels direct the work of the people’s procuratorates at lower levels.

The people’s court takes the rule of the second instance as the final rule, that is, the judgments or rulings of the second instance of the people’s court are final. The parties may appeal against the judgment or ruling of the first instance of a local people’s court. The people’s procuratorate may present a protest to the people’s court at the next higher level in accordance with the procedures stipulated by the laws. In the absence of any appeal by the parties and any protest by the people’s procuratorate within the stipulated period, the judgments or rulings of the people’s court are final. Judgments or rulings of the second instance of the intermediate people’s courts, the higher people’s courts and the Supreme People’s Court are final. The first judgments or rulings of the Supreme People’s Court are also final. However, if the Supreme People’s Court or a people’s court at the next higher level discovers an error in the final and binding judgment or ruling which has taken effect in any people’s court at a lower level, or the presiding judge of a people’s court discovers an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be initiated according to the judicial supervision procedures.

The Civil Procedure Law of the PRC (2023 revision) (《中華人民共和國民事訴訟法(2023修正)》) (the “PRC Civil Procedure Law”) adopted on April 9, 1991 and amended five times on October 28, 2007, August 31, 2012, June 27, 2017, December 24, 2021 and September 1, 2023 prescribes the conditions for instituting a civil action, the jurisdiction of the people’s courts, the procedures for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. Each party to a civil action conducted within the PRC must comply with the relevant provisions of the PRC Civil Procedure Law. A civil case is

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generally heard by the court located in the defendant’s place of domicile. The court of jurisdiction in respect of a civil action may also be chosen by explicit agreement among the parties to a contract, provided that the people’s court having jurisdiction should be located at places directly connected with the disputes, such as the plaintiff’s or the defendant’s place of domicile, the places where the contract is executed or signed or the place where the object of the action is located. Meanwhile, such selection cannot violate the stipulations of hierarchical jurisdiction and exclusive jurisdiction in any case.

A foreign individual, a person without nationality, a foreign enterprise and organization is given the same litigation rights and obligations as a citizen, a legal person and other organization of the PRC when initiating actions or defending against litigation at the people’s court. Should a foreign court limit the litigation rights of citizens, a legal person, and other organizations of the PRC, the PRC court may apply the same limitations to the civil litigation rights to citizens, enterprises and organizations of such foreign country. A foreign individual, a person without nationality, a foreign enterprise and organization must engage a PRC lawyer in case he or it needs to engage a lawyer for the purpose of initiating actions or defending against litigations at the people’s court. In accordance with the international treaties to which the PRC is a signatory or participant or according to the principle of reciprocity, a people’s court and a foreign court may request each other to serve documents, conduct investigation and collect evidence and conduct other actions on its behalf. A people’s court shall not accommodate any request made by a foreign court which will result in the violation of sovereignty, security or public interests of the PRC.

All parties to a civil action shall perform the legally effective judgments and rulings. If any party to a civil action refuses to abide by a judgement or ruling made by a people’s court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people’s court for the enforcement of the same within two years subject to application for postponed enforcement or revocation. If a party fails to satisfy within the stipulated period a judgement which the court has granted an enforcement approval, the court may, upon the application of the other party, mandatorily enforce the judgement on the party.

Where a party applies for enforcement of a legally effective judgement or ruling made by a people’s court, and the opposite party or his property is not within the territory of the PRC, the applicant may directly apply to a foreign court with jurisdiction for recognition and enforcement of the judgement or ruling, or the people’s court may, in accordance with the provisions of international treaties to which the PRC is a signatory or in which the PRC is a participant or the principle of reciprocity, request recognition and enforcement by a foreign court. Similarly, where an effective judgment or ruling made by a foreign court needs to be recognized and enforced by the people’s court of the PRC, unless the people’s court considers that the recognition or enforcement of the judgment or ruling would violate the basic legal principles of the PRC, national sovereignty, national security or social and public interest, the parties involved may directly apply to an intermediate people’s court of the PRC with jurisdiction for recognition and enforcement, or the foreign court may, in accordance with the provisions of international treaties entered into or acceded to by that country and the PRC or according to the principle of reciprocity, request the people’s court to recognize and enforce it.

The Company Law of the PRC, the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies and the Guidelines for the Articles of Association of Listed Companies

The Company Law of the People’s Republic of China(《中華人民共和國公司法》) (the “PRC Company Law”) was adopted by the Standing Committee of the Eighth NPC at its Fifth Session on December 29, 1993 and came into effect on July 1, 1994. It was successively amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013, October 26, 2018 and December 29, 2023. The newly revised PRC Company Law has been implemented on July 1, 2024.

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On February 17, 2023, CSRC promulgated the Trial Administrative Measures of 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》) (the “Overseas Listing Trial Measures”), which came into effect on March 31, 2023 and is applicable to direct and indirect overseas share subscription and listing of domestic companies, which also stipulates the filing administrative measures and regulatory requirements for the overseas securities offering and listing by domestic companies.

The Guidelines on the Articles of Association of Listed Companies(《上市公司章程指引》), latest revised and implemented by the CSRC on March 28, 2025, or the Guidelines for Articles of Association.

According to the Overseas Listing Trial Measures and its supporting guidelines, Guidelines for the Application of Regulatory Rules — Overseas Listing Category No. 1, domestic enterprises that are directly listed overseas shall formulate its Articles of Association with reference to the Guidelines for the Articles of Association and other relevant provisions of the CSRC on main provisions of the PRC Company Law, the Overseas Listing Trial Measures and the Guidelines for the Articles of Association.

General Provisions

A joint stock limited company refers to an enterprise legal person incorporated under the PRC Company Law with its registered capital divided into shares of equal par value. The liability of its shareholders is limited to the amount of shares held by them and the company is liable to its creditors for an amount equal to the total value of its assets.

A joint stock limited company shall conduct its business in accordance with laws and administrative regulations. It may invest in other limited liability companies and joint stock limited companies and its liabilities with respect to such invested companies are limited to the amount invested. If it is prescribed by any law that a company shall not become a capital contributor that shall bear the joint and several liability for the debts of the enterprises it invests in, such provisions shall prevail.

Incorporation

A joint stock limited company may be incorporated by promotion or raising. A joint stock limited company shall be incorporated by one to 200 promoters, provided that at least more than half of the promoters must reside in the PRC. Where a joint stock limited company is to be established by means of promotion, promoters shall fully subscribe for the shares that shall be issued at the time of the establishment of the company as provided for in the Articles of Association. If a joint stock limited company is to be established by means of raising, the promoters shall subscribe for not less than 35% of the total shares that shall be issued at the time of the establishment of the company as provided for in the Articles of Association; however, where laws and administrative regulations provide otherwise, such provisions shall prevail.

A document shall be published and a subscription letter shall be prepared when the promoters offer shares to the public. The subscriber shall fill in the number of shares subscribed for, amount and domicile and affix his/her signature or seal to the subscription letter. The subscriber shall make full payment for the shares subscribed for. Where a promoter is offering shares to the public, such offer shall be underwritten by security companies established under PRC laws, and an underwriting agreement shall be concluded thereon. A promoter offering shares to the public shall also enter into agreements with banks in relation to the receipt of subscription monies. The receiving banks shall receive and keep in custody the subscription monies, issue receipts to subscribers who have paid the subscription monies and furnish evidence of receipt of those subscription monies to relevant authorities. After the share capital for a public offering has been paid in full, a capital verification institution established under PRC law must be engaged to conduct a capital verification and furnish a certificate thereof. Where the shares to be issued have not been fully subscribed

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for at the time of the establishment of a company, or the promoters fail to hold an establishment meeting within 30 days after the full payment has been made for the shares to be issued, subscribers may claim against the promoters for refund of the payment for shares plus the interest on the bank deposits for the same term. The promoters and subscribers may not withdraw their share capital after they have made payment for the shares or delivered non-monetary property as capital contributions, except that the shares have not been fully subscribed for within the time limit, the promoters fail to hold the establishment meeting on schedule, or the establishment meeting decides not to establish the company. The Board of Directors shall, within 30 days after the end of the establishment meeting of a company, authorize a representative to file an application for registration of establishment with the company registration authority.

A company’s promoter shall be liable for the followings: (1) the debts and expenses incurred in the establishment process jointly and severally if the company cannot be established; (2) the refund of subscription monies paid by the subscribers together with interest at bank deposit rates for the same period jointly and severally if the company cannot be established.

Share Capital

The promoters may make a capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights, land use rights, stock rights or creditor’s rights which can be appraised with monetary value and transferred lawfully, except for assets which are prohibited from being contributed as capital by the laws or administrative regulations. If a capital contribution is made in non-monetary assets, a valuation of the assets contributed must be carried out pursuant to the provisions of the laws or administrative regulations on valuation without any over-valuation or under-valuation. If there are provisions on the assessment of value in any law or administrative regulation, such provisions shall prevail.

The issuance of shares shall be conducted in a fair and equitable manner. Each share of the same class must carry equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. The same price per share shall be paid by any share subscriber. The issue price of par value stock may be based on the face value or exceed the face value but shall not be lower than the face value.

Under the PRC Company Law, a joint stock limited company shall maintain a shareholder register which sets forth the following matters: (1) the name and domicile of each shareholder; (2) the type and quantity of subscribed shares for each shareholder; (3) for stocks issued in paper form, the serial numbers of stocks; (4) the date on which each shareholder acquired the shares.

Increase In Share Capital

Pursuant to the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in a shareholder’s meeting. The Articles of Association or the shareholders’ meeting may authorize the Board of Directors to decide to issue not more than 50% of the shares that have been issued within three years. However, if the capital contributions are to be made using non-monetary property, they shall be subject to a resolution made by the shareholders’ meeting. Where the Board of Directors is authorized and decides to issue shares, and thus results in a change in the registered capital or the number of issued shares of the company, the voting at the shareholders’ meeting may not be needed to revise such item set forth in the Articles of Association of the company. Where the Articles of Association or the shareholders’ meeting of a company authorizes the Board of Directors to decide on issuing new shares, a resolution of the Board of Directors shall be adopted by two thirds of all the directors. In addition, where a domestic enterprise issuing and listing overseas, the issuer shall file with the CSRC in accordance with the Overseas Listing Trial Measures and submit a filing report, legal opinions and other relevant materials, giving a true, accurate and complete account of shareholders’ information and other information.

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Reduction of Share Capital

The company shall reduce the registered capital in accordance with the following procedures as stipulated in the PRC Company Law:

- (I) the company shall prepare a balance sheet and an inventory of properties;
- (II) make a resolution at a shareholders’ meeting to reduce the registered capital;
- (III) the company shall notify its creditors within 10 days after making the resolution to reduce the registered capital and publish the relevant announcement in newspapers or on the National Enterprise Credit Information Publicity System within 30 days;
- (IV) a creditor may, within 30 days after receipt of the notification, or within 45 days after the date of announcement if he/she has not received the notification, have the right to request the company to repay its debts or provide relevant guarantees; and
- (V) the company must apply to the company registration authority for a change in registration.

Where a company reduces its registered capital, it shall reduce the amount of capital contribution or shares in proportion to the capital contribution or shares held by the shareholders, unless it is otherwise prescribed by any law, or is otherwise prescribed by the Articles of Association of the company.

If a company still has losses after making up for them in accordance with the relevant provisions of the PRC Company Law, it may reduce its registered capital to make up for the losses. If the registered capital is reduced to make up for the loss, the company shall not make any distribution to the shareholders, nor shall the shareholders be exempted from their obligation to pay the capital contribution or the share capital. If the registered capital is reduced in accordance with the aforesaid provisions, the item (III) and item (IV) mentioned above shall not apply, but the resolution to reduce the registered capital shall be made by the shareholders’ meeting within 30 days from the date of the announcement in the newspapers or on the National Enterprise Credit Information Publicity System. After a company reduces its registered capital in accordance with the provisions of the preceding paragraphs, it shall not distribute profits until the accumulated amount of statutory reserve and discretionary reserve reaches 50% of the company’s registered capital.

When a company reduces its registered capital in violation of the provisions of the PRC Company Law, its shareholders shall refund the funds they have received, and if the capital contributions of the shareholders are reduced or exempted, such capital contributions shall be restored to the original status; if any loss is caused to the company, the shareholders and the liable directors, supervisors and senior management shall bear the liability for compensation.

Repurchase of Shares

Under the provisions of the PRC Company Law, a company shall not repurchase its own shares except in the following circumstances:

- (I) reduction of the registered capital of the company;
- (II) merger with another company that holds its shares;
- (III) use of its shares for carrying out an employee stock ownership plan or equity incentive plan;

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- (IV) request from shareholders who object to a resolution of a shareholders’ meeting on merger or division of the company to acquire their shares by the company;
- (V) use of shares for conversion of convertible corporate bonds issued by the listed company; and
- (VI) it is necessary for a listed company to maintain its company value and protect its shareholders’ equity.

A resolution of a shareholders’ meeting is required for the repurchase of shares by a company under either of the circumstances stipulated in item (I) or item (II) above; for a company’s repurchase of shares under any of the circumstances stipulated in item (III), item (V) or item (VI) above, a resolution of a meeting of the Board of Directors shall be made by more than two-thirds of directors attending the meeting according to the provisions of the Company’s Articles of Association or as authorized by the shareholders’ meeting.

The shares acquired by the company according to the above provisions under the circumstance stipulated in item (I) hereof a company shall be deregistered within 10 days from the date of acquisition of shares; the shares shall be transferred or deregistered within six months if the repurchase of shares is made under the circumstances stipulated in either item (II) or item (IV); and the shares in the company held in total by the company after the repurchase of shares under any of the circumstances stipulated in item (III), item (V) or item (VI) shall not exceed 10% of the Company’s total issued shares, and shall be transferred or deregistered within three years.

A company shall not accept its own shares as the subject matter of a mortgage.

No company may provide gifts, loans, guarantees or other financial aids for others to obtain the shares of the company or the parent company thereof unless it carries out an employee stock ownership plan. For the benefits of the company, the company may, upon a resolution by the shareholders’ meeting or by the Board of Directors under the Articles of Association or the authorization of the shareholders’ meeting, provide financial aids for others to obtain the shares of the company or the parent company thereof, provided that the total accumulative amount of the financial aids shall not exceed 10% of the total issued share capital. A resolution by the Board of Directors shall be adopted by two thirds of all the directors.

Any director, supervisor or senior management who is liable for any loss to the company due to violation of the provisions of the preceding paragraph shall make compensations.

Transfer of Shares

The shares held by a shareholder of a company may be transferred to other shareholders or to persons other than the shareholders of the company. Where the Articles of Association of the company have any restriction on the transfer of shares, the transfer shall be carried out in accordance with the Articles of Association. Under the PRC Company Law, a shareholder should effect a transfer of his shares on the stock exchange established in accordance with laws or by any other means as required by the State Council. The transfer of shares by a shareholder must be conducted by means of an endorsement or by other means stipulated by laws or by administrative regulations. Following the transfer of shares, the company shall enter the names and domiciles of the transferee into its share register. Change of the register of members described in the preceding paragraph shall not be registered within 20 days before the convening of a shareholders’ meeting or 5 days prior to the base date on which the company decides to distribute dividends. However, where it is otherwise provided for in any law, administrative regulation or by the securities regulatory authority of the State Council for the modification of the register of shareholders of a listed company, such provisions shall prevail.

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Pursuant to the PRC Company Law, shares of the company issued prior to the public issue of shares may not be transferred within one year of the date of the company’s listing on the stock exchange. Where it is otherwise provided for in any law, administrative regulation or by the securities regulatory authority of the State Council for the transfer of shares held by the shareholders or actual controllers of a listed company, such provisions shall prevail. Directors, supervisors and senior management of the company shall declare to the company the shares they hold and the changes thereof during the term of office as determined when they assume the posts, the shares transferred each year shall not exceed 25% of the total shares they hold of the company. They shall not transfer the shares they hold within one year of the date of the company’s listing on the stock exchange, nor within six months after they leave their positions in the company. The Articles of Association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management. Where the shares are pledged within the time limit for restricted transfer as provided for by laws and administrative regulations, the pledgee may not exercise the pledge right within such restricted period.

Pursuant to the Overseas Listing Trial Measures, for a domestic company directly offering and listing overseas, the shareholders of its domestic unlisted shares applying to convert its domestic unlisted shares into overseas listed shares and listed and traded on an overseas trading venue shall conform to relevant regulations promulgated by the CSRC, and appoint the domestic company to file with the CSRC.

Shareholders

Pursuant to the PRC Company Law and the Guidelines for Articles of Association, the rights of shareholders include the rights:

- (I) to be legally entitled to assets income, participate in significant decision-making and select management personnel;
- (II) to petition the people’s court to revoke any resolution of a shareholders’ meeting, a shareholders’ meeting or a meeting of the Board of Directors that has been convened or whose voting has been conducted in violation of the laws, administrative regulations or the Articles of Association of the company, or any resolution the contents of which is in violation of the laws, administrative regulations or the Articles of Association of the company, provided that such petition shall be submitted to the people’s court within 60 days of the passing of such resolution;
- (III) to transfer his/her shares legally;
- (IV) to attend or appoint a proxy to attend shareholders’ meeting and exercise the voting rights;
- (V) to inspect and copy the Articles of Association of the company, share register, the minutes of shareholders’ meeting, board resolutions, resolutions of the Board of Supervisors and the financial and accounting reports, and to make suggestions or inquiries in respect of the company’s operations;
- (VI) to receive dividends in respect of the number of shares held;
- (VII) to participate in the distribution of residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and
- (VIII) any other shareholders’ rights provided for in laws, administrative regulations, other normative documents and the Articles of Association of the company.

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The obligations of shareholders include the obligation to abide by the Articles of Association of the company, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company’s responsibilities in respect of the shares taken up by them and any other shareholder obligation specified in the Articles of Association of the company.

Shareholders’ meeting

The shareholders’ meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law. The shareholders’ meeting may exercise its powers:

- (I) to elect or replace the directors and supervisors and to decide on their remunerations;
- (II) to consider and approve the reports of the Board of Directors;
- (III) to consider and approve the reports of the Board of Supervisors;
- (IV) to consider and approve the company’s profit distribution and loss recovery proposals;
- (V) to decide on any increase or reduction of the company’s registered capital;
- (VI) to decide on the issue of corporate bonds;
- (VII) to decide on merger, division, dissolution and liquidation of the company or change of its corporate form;
- (VIII) to amend the Articles of Association of the company; and
- (IX) to exercise any other authority stipulated in the Articles of Association of the company.

The shareholders’ meeting may authorize the Board of Directors to make resolutions on the issuance of corporate bonds.

Pursuant to the PRC Company Law, a shareholders’ meeting is required to be held once a year within six months after the end of the previous accounting year. An interim shareholders’ meeting is required to be held within two months upon the occurrence of any of the following:

- (I) the number of directors is less than the number required by the law or less than two-thirds of the number specified in the Articles of Association of the company;
- (II) the total outstanding losses of the company amounted to one-third of the company’s total capital stock;
- (III) shareholders individually or in aggregate holding 10% or more of the company’s shares request to convene an interim shareholders’ meeting;
- (IV) the Board of Directors deems necessary;
- (V) the Board of Supervisors so proposes; or
- (VI) any other circumstances as provided for in the Articles of Associations of the company.

A shareholders’ meeting is convened by the Board of Directors and presided over by the chairman of the Board of Directors. In the event that the chairman is incapable of performing or is not performing his or her duties, the meeting shall be presided over by the vice chairman. If the vice chairman is incapable of

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performing or is not performing his or her duties, a director jointly recommended by more than half of directors shall preside over the meeting. If the Board of Directors is unable to or fails to perform its duty of convening the shareholders’ meeting, the Board of Supervisors shall convene and preside over such meeting in a timely manner; if the Board of Supervisors fails to convene and preside over such meeting, shareholders who individually or jointly hold more than 10% of the company’s shares for more than 90 consecutive days may independently convene and preside over such meeting. If the shareholders who individually or jointly hold more than 10% of the shares of the company request to convene an interim shareholders’ meeting, the Board of Directors and the Board of Supervisors shall, within 10 days after the receipt of such request, decide whether to hold an interim shareholders’ meeting and reply to the shareholders in writing.

In accordance with the PRC Company Law, a notice stating the time and venue of the meeting and the matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting if the shareholders’ meeting is convened. Notice of the interim shareholders’ meeting shall be given to all shareholders 15 days before the meeting. Shareholders who individually or jointly hold more than one percent of the shares of the company may submit an interim proposal in writing to the Board of Directors ten days before the shareholders’ meeting is held. The Board of Directors shall notify other shareholders within two days upon receipt of the proposal, and submit the interim proposal to the shareholder’s meeting for deliberation, unless the interim proposal is in violation of any law, administrative regulation or the Articles of Association or fails to fall into the scope of functions of the shareholders’ meeting. The company shall not raise the shareholding proportion of the shareholder who brings forward any interim proposal. A company offering shares to the public shall make the notices as mentioned in the preceding paragraphs by way of announcement. The shareholders’ meeting shall not make any resolution on any matter not specified in the notice.

According to the PRC Company Law, shareholders present at shareholders’ meeting shall have one vote for each share they hold, except the shareholders of classified shares. The company may not have a voting right for the shares it holds.

An accumulative voting system may be adopted for the election of directors and supervisors at the shareholders’ meeting pursuant to the provisions of the Articles of Association of the company or a resolution of the shareholders’ meeting. Under the accumulative voting system, when the shareholders’ meeting elects directors or supervisors, each share has the same voting rights as the number of directors or supervisors to be elected, and the voting rights owned by shareholders can be used collectively.

Under the PRC Company Law, the passing of any resolution at the shareholder’s meeting requires affirmative votes of shareholders representing more than half of the voting rights held by the shareholders who attend the shareholder’s meeting except in cases of proposed amendments to a Articles of Association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights held by the shareholders who attend the shareholder’s meeting.

Minutes shall be prepared in respect of matters considered at the shareholders’ meeting and the chairperson and directors attending the meeting shall endorse such minutes by signature. The minutes shall be kept together with the shareholders’ attendance register and the proxy forms.

Board of Directors

A joint stock limited company shall have a board. However, a joint stock limited company with a relatively small scale or relatively small number of shareholders may dispense with the Board of Directors and have one director to exercise the functions and powers of the Board of Directors as prescribed by the PRC Company Law. If the Board of Directors of a company has more than three members, it may include an employees’ representative of the company. Where a company has 300 or more employees, the Board of

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Directors shall include the employees’ representatives of the company unless the Board of Supervisors has been established and includes employees’ representatives of the company. The employees’ representatives in the Board of Directors shall be democratically elected by the employees through the employees’ representative congress, employees’ congress or by other means.

The term of office of the directors shall be provided for by the Articles of Association, but each term of office shall not exceed three years. A director may seek reelection upon expiry of the said term. A director shall continue to perform his/her duties as a director in accordance with the laws, administrative regulations and the Articles of Association until a duly re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of directors results in the number of directors being less than the quorum. Where a director resigns, he/she shall notify the company in written form, and the resignation shall become effective on the day when the company receives the notice.

However, under any of the circumstances as mentioned in the preceding paragraph, the director shall continue performing his/her duties.

Under the PRC Company Law, the Board of Directors may exercise the following powers:

- (I) to convene shareholders’ meeting and report on its work to the shareholders’ meeting;
- (II) to implement the resolutions passed by the shareholders at the shareholders’ meeting;
- (III) to decide on the Company’s operational plans and investment proposals;
- (IV) to formulate the Company’s proposals for profit distribution and for recovery of losses;
- (V) to formulate proposals for the increase or reduction of the Company’s registered capital and the issue of corporate bonds;
- (VI) to formulate proposals for the merger, division, dissolution of the Company or change in the form of the Company;
- (VII) to decide on the setup of the Company’s internal management organs;
- (VIII) to decide on appointment or dismissal the manager of the Company and his/her remuneration matters, and as nominated by the manager, to decide on appointment or dismissal the Company’s deputy general manager and financial officer and his/her remuneration matters;
- (IX) to formulate the Company’s basic management system; and
- (X) other authority stipulated in the Articles of Association or granted by the shareholders’ meeting.

Any restrictions on the functions and powers of the Board of Directors set out in the Articles of Association may not be asserted against any bona fide third party.

Under the PRC Company Law, a company may, under the Articles of Association, set up an audit committee composed of directors in the Board of Directors, which shall exercise the functions and powers of the Board of Supervisors. It may not have a Board of Supervisors or supervisors. The audit committee shall be composed of at least 3 members, and more than half of the members shall not assume any position other than the director in the company and shall not have any relationship with the company that may affect their independent and objective judgments. Among the members of the Board of Directors of the company, an employees’ representative may become a member of the audit committee. A resolution made by the audit

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committee shall be adopted by more than half of the members thereof. For voting on a resolution of the audit committee, each member shall have one vote. The discussion methods and voting procedures of the audit committee shall be prescribed in the Articles of Association, unless it is otherwise provided under the PRC Company Law. A company may set up other committees in the Board of Directors under the Articles of Association.

Meeting of the Board of Directors shall be convened at least twice a year. Notice of meeting shall be given to all Directors and Supervisors 10 days before the meeting. Interim board meeting may be proposed to be convened by shareholders representing more than one-tenth of the voting rights, more than one-third of the Directors or the Board of Supervisors. The chairman shall convene the meeting within 10 days of receiving such proposal, and preside over the board meeting. The Board of Directors may otherwise determine the method of giving notice and notice period for convening an interim meeting of the Board of Directors.

No meeting of the Board of Directors may be held unless more than half of the directors are present. A resolution made by the Board of Directors shall be adopted by more than half of all the directors. For voting on a resolution of the Board of Directors, each director shall have one vote. The Board of Directors shall prepare minutes regarding the decisions on the matters discussed at the meetings, which shall be signed by the directors present.

The directors shall attend the meeting of the Board of Directors in person. Where any director is unable to attend the meeting for any reason, he/she may, by issuing a written power of attorney, entrust another director to attend the meeting on his/her behalf. The power of attorney shall indicate the scope of authorization. The directors shall be responsible for the resolutions made by the Board of Directors. Where a resolution of the Board of Directors is in violation of any law, administrative regulation, Article of Association or resolution of the shareholders' meeting and causes any serious loss to the company, the directors who participate in adopting such resolution shall be liable for compensation to the company. If a director is proved to have expressed his/her objection to the voting on such resolution and such objection has been recorded in the minutes, he/she may be exempted from liability.

Under the PRC Company Law, the following person may not serve as a director of the company:

- (I) devoid of or with restricted civil conduct ability;
- (II) within five years after serving sentence for embezzlement, bribery, infringement or misappropriation of property, or for jeopardizing socialist market economic order, or within five years after serving sentence and being deprived of political rights for crime; within two years after being pronounced for suspension of sentence since the expiration of the suspension of sentence;
- (III) within three years after insolvency and liquidation of such Company or enterprise where the person acted as a director, factory manager or business manager and has been held accountable for the insolvency;
- (IV) within three years after company or enterprise the person acted as legal representative is revoked business license and ordered to shut down for violating law on which the person is held accountable; and
- (V) being listed as a dishonest person subject to enforcement by the people's court due to large amount of unliquidated mature debts.

Where a company elects or appoints a director to which any of the above circumstances applies, such election, appointment or designation shall be invalid. A director to which any of the above circumstances applies during his/her term of office shall be released of his/her duties by the Company.

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In addition, the Guidelines for the Articles of Association further stipulate other circumstances under which a person is disqualified from acting as a director of a company, including: (1) a person who has been banned from the securities market by the CSRC where the relevant period remains unexpired; or (2) a person who is banned from doing so in accordance with other laws, administrative regulations or departmental rules.

Under the PRC Company Law, the Board shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman shall be elected with approval of more than half of all the directors. The chairman shall convene and preside over board meeting and review the implementation of board resolutions. The vice chairman shall assist the chairman to perform his/her duties. Where the chairman is incapable of performing or is not performing his/her duties, the duties shall be performed by the vice chairman. Where the vice chairman is incapable of performing or is not performing his/her duties, a director nominated by more than half of the directors shall perform his/her duties.

Board of Supervisors

A joint stock limited company shall have a Board of Supervisors composed of three members or more. However, a joint stock limited company (i) with a relatively small scale or relatively small number of shareholders may dispense with the Board of Supervisors, but may have one supervisor, who shall exercise the functions and powers of the Board of Supervisors, and (ii) may not have a Board of Supervisors or supervisors if it sets up an audit committee composed of directors in the Board of Directors, which shall exercise the functions and powers of the Board of Supervisors. The Board of Supervisors shall consist of representatives of the shareholders and an appropriate proportion of representatives of the Company’s staff, of which the proportion of representatives of the company’s staff shall not be less than one-third, and the actual proportion shall be determined in the Articles of Association. Representatives of the Company’s staff at the Board of Supervisors shall be democratically elected by the Company’s staff at the staff representative assembly, general staff meeting or otherwise.

The Board of Supervisors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the Board of Supervisors shall be elected by more than half of all the supervisors. Directors and senior management shall not act concurrently as supervisors. The chairman of the Board of Supervisors shall convene and preside over the Board of Supervisors meeting. Where the chairman of the Board of Supervisors is incapable of performing or is not performing his/her duties, the vice chairman of the Board of Supervisors shall convene and preside over the Board of Supervisors meeting. Where the vice chairman of the Board of Supervisors is incapable of performing or is not performing his/her duties, a supervisor elected by more than half of the supervisors shall convene and preside over the Board of Supervisors meeting.

The supervisors serve three-year terms. A supervisor may serve consecutive terms if re-elected upon the expiration of his/her term. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the Articles of Association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The Board of Supervisors may exercise its powers:

- (I) to review the company’s financial position;
- (II) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the Articles of Association or resolutions of the shareholders’ meeting;

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- (III) when the acts of a director or senior management are detrimental to the company’s interests, to require the director and senior management to correct these relevant acts;
- (IV) to propose the convening of extraordinary shareholders’ meeting and to convene and preside over shareholders’ meeting when the board fails to perform the duty of convening and presiding over shareholders’ meeting under the PRC Company Law;
- (V) to submit proposals to the shareholders’ meeting;
- (VI) to bring actions against directors and senior management pursuant to the relevant provisions of the PRC Company Law; and
- (VII) to exercise any other authority stipulated in the Articles of Association.

Supervisors may be present at board meeting and make inquiries or proposals in respect of the resolutions of the Board of Directors. The Board of Supervisors may investigate any irregularities identified in the operation of the company and, when necessary, may engage an accounting firm to assist its work at the cost of the company.

According to the Provisions of the State Council on Implementation of the Registered Capital Administration System under the PRC Company Law (《國務院關於實施〈中華人民共和國公司法〉註冊資本登記管理制度的規定》) promulgated by the State Council on July 1, 2024, a listed company shall set up an audit committee under the board of directors in its Articles of Association and shall set forth the composition and powers of the audit committee according to the Company Law and the provisions of the State Council. On December 27, 2024, the CSRC issued the Relevant Transitional Arrangements to Implement the Supporting Rules of the New Company Law (《關於新〈公司法〉配套制度規則實施相關過渡期安排》) under which, the PRC company applying for initial public offering on stock exchange, who sets up an audit committee under the board of directors to exercises the powers of the Board of Supervisors, shall not have any supervisor or Board of Supervisors.

Manager and Senior Management

Pursuant to the relevant provisions of the PRC Company Law, a company shall have a manager who shall be appointed or removed by the Board of Directors. The manager shall be responsible to the Board of Directors and exercise his/her functions and powers according to the Articles of Association or the authorization of the Board of Directors. The manager shall attend the meeting of the Board of Directors as a non-voting member.

According to the relevant provisions of the PRC Company Law, senior management refers to the manager, deputy manager, financial officer, secretary to the Board of Directors of a listed company and other personnel as stipulated in the Articles of Association.

Duties of Directors, Supervisors, General Managers and Other Senior Management

Directors, supervisors and senior management shall comply with laws, administrative regulations and the Articles of Association.

Directors, supervisors and senior management shall assume the obligation of loyalty to the company and take measures to avoid the conflict between their own interests and those of the company and may not seek any improper interests by taking advantage of their powers. The directors, supervisors and senior management shall assume the duty of diligence to the company. When performing their duties, they shall, for the best interests of the company, exercise the reasonable care that shall be generally possessed by a manager.

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The provisions of the preceding paragraphs shall apply to the controlling shareholder or actual controller of a company who does not serve as a director but actually executes the affairs of the company.

In the meantime, directors, supervisors and senior management are prohibited from:

- (I) embezzling the property or misappropriating the funds of the company;
- (II) depositing company funds into accounts under their own names or the names of other individuals;
- (III) giving bribes or accepting any other illegal proceeds by taking advantage of his/her power;
- (IV) accept commissions from transactions between others and the company for their own benefits;
- (V) unauthorized divulgence of confidential information of the company; and
- (VI) other acts in violation of their duty of loyalty to the company.

A director, supervisor or senior management who contravenes laws, administrative regulations or Articles of Association in the performance of his/her duties resulting in any loss to the company shall be liable to the company for compensation.

Where a director, supervisor or senior management is required to attend a shareholders' meeting, such director, supervisor or senior management shall attend the meeting and answer the inquiries from shareholders. The Board of Supervisors may demand the directors or senior management to submit reports on the performance of their duties. The directors and senior management shall truthfully provide relevant information and materials to the Board of Supervisors, none of them may impede the exercise of powers by the Board of Supervisors or supervisors.

Where the directors and senior management violate laws, administrative regulations or the Articles of Association in performance of duties to the company, thereby causing damages to the company, the shareholders individually or jointly holding more than 1% of the shares in the company for more than 180 consecutive days may request in writing the Board of Supervisors to initiate proceedings in the people's court.

Where the supervisors violate the laws, administrative regulations or the Articles of Association in performance of duties resulting in any loss to the company, the aforementioned shareholder(s) may request in writing that the Board of Directors institute litigation at a people's court. Upon receipt of shareholders' written request stipulated in the preceding paragraph, if the Board of Supervisors or the Board of Directors refuses to file a lawsuit or does not file a lawsuit within 30 days from receipt of such request, or in the event of emergency where the interest of the company will suffer irreparable damages if lawsuit is not filed immediately, the shareholders stipulated in the preceding paragraph shall have the right to file a lawsuit directly with the people's court in their own name for the interest of the company. For other parties who infringe the lawful interests of the company resulting in loss to the company, the aforementioned shareholder(s) may institute litigation at a people's court in accordance with the procedure described above. Where any director or senior management violates the provisions of laws, administrative regulations or the Articles of Association, damaging interests of shareholders, the shareholders may file a lawsuit with the people's court.

If a director, supervisor or senior management of a wholly-owned subsidiary of the company violate laws, administrative regulations or the Articles of Association in performance of duties to the company, thereby causing damages to the company, or if the legitimate rights and interests of a wholly-owned subsidiary of the company are impaired by any other person, thus causing any losses, the shareholders of a

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limited liability company or shareholders of a joint stock limited company individually and jointly holding 1% or more of the total shares of the company for 180 consecutive days or more may request the Board of Supervisors or the Board of Directors of the wholly-owned subsidiary in written form to initiate a lawsuit in the people’s court or directly files a lawsuit with the people’s court in their own name.

Finance, Accounting and Profit Distribution

According to the PRC Company Law, a company shall establish its own financial and accounting systems according to the laws, administrative regulations and the regulations of the financial departments of the State Council. A company shall prepare its financial reports at the end of each accounting year which shall be audited by accounting firm according to law. The financial and accounting reports shall be prepared in accordance with the laws, administrative regulations and the regulations of the financial departments of the State Council. The company’s financial and accounting reports shall be made available for shareholders’ inspection at the company within 20 days before the convening of an annual shareholder’s meeting. A joint stock limited company that makes public stock offerings shall announce its financial and accounting reports.

When distributing each year’s after-tax profits, the company shall set aside 10% of its after-tax profits for the company’s statutory common reserve fund. However, when the cumulative amount of the reserve fund has reached more than 50% of the PRC company’s registered capital, it may no longer be allocated. When the company’s statutory common reserve fund is not sufficient to make up for the company’s losses for the previous years, the current year’s profits shall first be used to make up the losses before any allocation is set aside for the statutory common reserve fund. After the company has made allocations to the statutory common reserve fund from its after-tax profits, it may, upon passing a resolution at a shareholders’ meeting, make further allocations from its after-tax profits to the discretionary common reserve fund. After the company has made up its losses and made allocations to its discretionary common reserve fund, the remaining after-tax profits shall be distributed to shareholders in proportion to the number of shares held by the shareholders, except for those which are not distributed in a proportionate manner as provided by the Articles of Association. Profit shall not be distributed for a company’s shares held by this company.

Where a company distributes profits to shareholders in violation of the relevant provisions of the PRC Company Law, the shareholders shall refund the profits distributed to the company, and the shareholders and the liable directors, supervisors and senior management shall be held liable for compensation if any loss is caused to the company.

If the shareholders’ meeting resolves to distribute profits, the Board of Directors shall do so within six months after the resolution is made.

The premiums received by a company from the issuance of shares at an issue price in excess of the par value of the shares, the amount of share proceeds from the issuance of no-par shares that have not been credited to the registered capital, and other items required by the financial department of the State Council to be included in the capital reserve shall be classified as the capital reserve of the company.

The reserve of a company shall be used for making up losses, expanding the production and business scale or increasing the registered capital of the company. Where the reserve of a company is used for making up losses, the discretionary reserve and statutory reserve shall be firstly used. If losses still cannot be made up, the capital reserve can be used according to the relevant provisions. Where the statutory reserve is converted to increase registered capital, the amount of such reserve retained shall not be less than 25% of the registered capital of the company prior to the conversion.

The company shall have no accounting books other than the statutory books. The company’s funds shall not be deposited in any account opened under the name of an individual.

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After a company reduces its registered capital in accordance with the provisions of the PRC Company Law, it shall not distribute profits until the accumulated amount of statutory reserve and discretionary reserve reaches 50% of the company’s registered capital.

Appointment and Dismissal of Auditors

Pursuant to the PRC Company Law, the appointment or dismissal of an accounting firm responsible for the auditing of the company shall be determined by shareholders at a shareholders’ meeting, the Board of Directors or the Board of Supervisors in accordance with the Articles of Association. The accounting firm should be allowed to make representations when the shareholders’ meeting, the Board of Directors or the Board of Supervisors conducts a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidence, accounting books, financial and accounting reports and other accounting information to the engaged accounting firm without any refusal or withholding or misrepresentation of information.

Amendment to Articles of Association

Pursuant to PRC Company Law, the resolution of a shareholders’ meeting regarding any amendment to a company’s Articles of Association requires affirmative votes by at least two-thirds of the votes held by shareholders attending the meeting. According to the Guidelines for the Articles of Association of Listed Companies, if the amendments to the Articles of Association approved by the resolution of the shareholder’s meeting of shareholders are subject to approval by the competent authority, they must be reported to the competent authority for approval; if they involve company registration matters, the modification registrations shall be handled according to law. Where the amendments to the Articles of Association belong to information required to be disclosed by laws and regulations, such amendments shall be announced in accordance with the regulations.

Dissolution and Liquidation

Pursuant to PRC Company Law, a company shall be dissolved for any of the following reasons:

- (I) upon expiry of term of business stipulated in the Articles of Association or occurrence of other circumstances of dissolution stipulated in the Articles of Association;
- (II) the shareholders’ meeting has resolved to dissolve the company;
- (III) the company is dissolved by reason of its merger or division;
- (IV) the business license of the company is revoked or the company is ordered to close down or to be dissolved in accordance with the laws; or
- (V) Where the company encounters serious difficulties in its operations or management that will lead to significant losses to the benefits of the shareholders if the company continues its existence and the situation cannot be resolved by other means, the company is dissolved by a people’s court in response to the request of shareholders representing 10% or more of the voting rights of all shareholders of the company.

If any of the situations as mentioned in the preceding paragraph arises, a company shall publicize the situations through the National Enterprise Credit Information Publicity System within ten days.

Where a company falls under the circumstance as mentioned in Items (I) or (II) of the paragraph above and it has not distributed the assets to its shareholders yet, it may survive by modifying its articles of association or upon a resolution of the shareholders’ meeting.

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To modify its articles of association or make a resolution of the shareholders’ meeting according to the provisions of the preceding paragraph, the consent of two thirds or more of the voting rights of the shareholders who attend the meeting of the shareholders’ meeting is required.

Where the company is dissolved under the circumstances set forth in item (I), (II), (IV) or (V) above, it shall be liquidated. The directors, who are the liquidation obligors of the company, shall form a liquidation group to carry out liquidation within 15 days from the date of occurrence of the cause of dissolution. The liquidation group shall be composed of the directors, unless it is otherwise provided for in the company’s Articles of Association or it is otherwise elected by the shareholders’ meeting.

The liquidation obligors shall be liable for compensation if they fail to fulfill their obligations of liquidation in a timely manner, and thus any loss is caused to the company or the creditors.

The liquidation committee may exercise following powers during the liquidation:

- (I) to verify the Company’s assets and to prepare a balance sheet and an inventory of assets;
- (II) to inform creditors by notice or announcement;
- (III) to deal with and settle any outstanding business of relevant company;
- (IV) to pay all outstanding taxes and the taxes arising during the liquidation process;
- (V) to settle claims and debts;
- (VI) to distribute the company’s remaining assets after its debts have been paid off; and
- (VII) to represent the company in civil lawsuits.

The liquidation committee shall notify the company’s creditors within 10 days of its establishment, and publish an announcement in newspapers or on the National Enterprise Credit Information Publicity System within 60 days.

A creditor shall lodge his claim with the liquidation committee within 30 days of receipt of the notification or within 45 days of the date of the announcement if he has not received any notification.

The creditors shall explain matters relating to their claims and provide evidential documents. The liquidation committee shall register the creditor’s claims. In the claims declaration period, the liquidation committee shall not make repayment to the creditors.

Upon disposal of the company’s property and preparation of the required balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan and submit this plan to a shareholders’ meeting or a people’s court for endorsement. The remaining part of the company’s assets, after payment of liquidation expenses, employee wages, social insurance fees and statutory compensation, outstanding taxes and the company’s debts, shall be distributed to shareholders in proportion to shares held by them. The company shall continue its existence during the liquidation period, although it cannot conduct operating activities that are not related to the liquidation. The company’s property shall not be distributed to shareholders before repayments are made in accordance with the requirements described above.

Where the liquidation group finds that the property of the company is not sufficient for paying off the debts after liquidating the property of the company and preparing a balance sheet and an inventory of property, it shall file an application to a people’s court for bankruptcy liquidation. After the people’s court accepts the application for bankruptcy, the liquidation group shall hand over the liquidation matters to the bankruptcy administrator designated by the people’s court.

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The members of the liquidation group performing their duties of liquidation are obliged to loyalty and diligence. Any member of the liquidation group who neglects to fulfill his/her liquidation duties, thus causing any loss to the company shall be liable for compensation, and any member of the liquidation group who cause any loss to any creditor due to his/her intentional or gross negligence shall be liable for compensation.

Upon completion of the liquidation of the company, the liquidation group shall produce a liquidation report, report the same to the shareholders’ meeting or the people’s court for confirmation, and submit the same to the company registration authority to apply for deregistration of the company.

Where, during the period of survival, a company has not incurred any debts or has paid off all the debts, the company may, upon a commitment of all the shareholders, be deregistered under the summary procedures according to the relevant provisions. The deregistration of a company under the summary procedures shall be announced through the National Enterprise Credit Information Publicity System for a period of no less than 20 days. If there is no objection after the expiry of the announcement period, the company may apply for deregistration of the company with the company registration authority within 20 days.

For a company deregistered under the summary procedures, its shareholders shall be jointly and severally liable for the debts incurred before the deregistration if they have made an untrue commitment.

Where, after three years since the business license of a company is revoked, or the company is ordered to close down or is revoked, the company fails to apply for its deregistration with the company registration authority, the said authority may announce the company’s deregistration through the National Enterprise Credit Information Publicity System for a period of no less than 60 days. If there is no objection after the announcement period expires, the company registration authority may deregister the company. Such deregistration of a company will not affect the liability of the original shareholders or liquidation obligors.

Overseas Listing

According to the Overseas Listing Trial Measures, the securities refer to stocks, depositary receipts, and corporate bonds that can be converted into stocks or other securities of an equity nature that are directly or indirectly offered and listed overseas by domestic companies. The direct overseas offering and listing of domestic companies refer to such overseas offering and listing of a joint stock limited company incorporated in the territory of PRC. The indirect overseas offering and listing of domestic companies refer to such overseas offering and listing made in the name of an offshore entity but based on the equity, assets, earnings, or other similar rights of a domestic company that operates its main business domestically.

The Overseas Listing Trial Measures also provide the conditions for overseas offering and listing. An overseas offering and listing are prohibited under any of the following circumstances:

- (I) the listing and financing fall under specific prohibition in the laws, administrative regulations, and relevant national provisions;
- (II) the overseas offering and listing may constitute endangerment to national security as reviewed and determined by competent authorities under the State Council in accordance with law;
- (III) the domestic company and its controlling shareholder(s), actual controllers, have a criminal record in recent three years for corruption, bribery, encroachment of assets, misappropriation of assets, or disruption of socialist market economy order;
- (IV) the domestic company is under investigation according to law for suspected crimes or major violations of laws and regulations, but no clear conclusions have been reached;

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- (V) there are material ownership disputes over the equities held by the controlling shareholders or the shareholders whose actions are controlled by the controlling shareholders or actual controllers.

In addition, under the Overseas Listing Trial Measures, where a PRC domestic company submits an application for initial public offering to competent overseas regulators or overseas stock exchanges, such issuer must file with the CSRC within three business days after such application is submitted.

In the event of the occurrence of any of the following material events after the overseas offering and listing, the PRC domestic companies shall make a detailed report to the CSRC within three working days after the occurrence and public announcement of the relevant event:

- (I) change of control;
- (II) being subject to investigation, punishment, or other measures by overseas securities regulatory authorities or the relevant competent authorities;
- (III) change of the listing status or transfer of listing board;
- (IV) voluntary or compulsory termination of listing.

Pursuant to the Provisions on Strengthening Confidentiality and Archives Administration Concerning Overseas Securities Offerings and Listings by Domestic Enterprises, which was issued by the CSRC, MOF, the National Administration of State Secrets Protection and the National Archives Administration on February 24, 2023 and implemented since March 31, 2023, a domestic enterprise that provides or through its overseas listed entity, publicly discloses or provides to relevant individuals or entities including securities companies, securities service providers and overseas regulators, any document and materials that contain state secrets or working secrets of government agencies, shall first obtain approval from competent authorities according to law, and files with the secrecy administrative department at the same level. A domestic enterprise that provides accounting archives or copies of accounting archives to any entities including securities companies, securities service providers and overseas regulators and individuals shall fulfill due procedures in compliance with applicable national regulations.

Loss of Share Certificates

A shareholder may, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, apply to a people’s court if his share certificate(s) in registered form is either stolen, lost or destroyed, for a declaration that such certificate(s) will no longer be valid. After the people’s court declares that such certificate(s) will no longer be valid, the shareholder may apply to the company for the issue of a replacement certificate(s).

Merger and Division

Pursuant to the PRC Company Law, a merger agreement shall be signed by merging companies and the involved companies shall prepare respective balance sheets and inventory of assets. The companies shall within 10 days of the date of passing the resolution approving the merger notify their respective creditors and publicly announce the merger in newspapers or on the National Enterprise Credit Information Publicity System within 30 days. A creditor may, within 30 days of receipt of the notification, or within 45 days of the date of the announcement if he has not received the notification, request the company to settle any outstanding debts or provide relevant guarantees. In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company.

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In case of a division, the company’s assets shall be divided and a balance sheet and an inventory of assets shall be prepared. When a resolution regarding the company’s division is approved, the company should notify all its creditors within 10 days of the date of passing such resolution and publicly announce the division in newspapers or on the National Enterprise Credit Information Publicity System within 30 days. The liabilities of the company which have accrued prior to the division shall be jointly borne by the separated companies other than in the agreement in writing entered into by the company with creditors in respect of the settlement of debts prior to division, unless otherwise stipulated in the agreement in writing entered into by the company with creditors in respect of the settlement of debts prior to division.

The PRC Securities Law, Regulations and Regulatory Regimes

The PRC has promulgated a series of regulations that relate to the issue and trading of shares and disclosure of information. In October 1992, the State Council established the Securities Committee and CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating, and supervising all securities related institutions in the PRC, and administering CSRC. The CSRC is the regulatory executive body of the Securities Committee and is responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offerings of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking relevant research and analysis. In April 1998, the State Council consolidated the two departments and reformed the CSRC.

On April 22, 1993, the State Council promulgated the Provisional Regulations Concerning the Issue and Trading of Shares (《股票發行與交易管理暫行條例》) governing the application and approval procedures for public offerings of shares, issuance of and trading in shares, the acquisition of listed companies, deposit, clearing, and transfer of shares, the disclosure of information, investigation, penalties and dispute resolutions with respect to a listed company.

The Securities Law of the PRC (《中華人民共和國證券法》) (the “PRC Securities Law”) took effect on July 1, 1999, and was revised as of August 28, 2004, October 27, 2005, June 29, 2013, August 31, 2014, and December 28, 2019, respectively. The latest revised PRC Securities Law took effect on March 1, 2020. The PRC Securities Law is the first national securities law in the PRC, comprehensively regulating activities in the PRC securities market. It is divided into 14 chapters and 226 articles, including the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies, and the responsibilities of the securities registration and settlement institutions and securities regulatory authorities. Article 224 of the PRC Securities Law provides that domestic enterprises issuing shares overseas directly or indirectly or listing their shares overseas shall comply with the relevant provisions of the State Council. Currently, the issue and trading of foreign-issued securities (including shares) are principally governed by the regulations and rules promulgated by the State Council and CSRC.

Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the “PRC Arbitration Law”) was enacted by the SCNPC on August 31, 1994, which became effective on September 1, 1995, and was amended on August 27, 2009, and September 1, 2017. The PRC Arbitration Law is applicable to, among other matters, economic disputes involving foreign parties where all parties had entered into a written agreement to resolve disputes by arbitration before an arbitration committee constituted in accordance with the PRC Arbitration Law. The PRC Arbitration Law provides that an arbitration committee may, before the promulgation of arbitration regulations by the PRC Arbitration Association, formulate interim arbitration rules in accordance with the PRC Arbitration Law and the PRC Civil Procedure Law. Where the parties have agreed to settle disputes by means of arbitration, a people’s court will refuse to handle a legal proceeding initiated by one of the parties at such people’s court unless the arbitration agreement is invalid.

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Under the PRC Arbitration Law and PRC Civil Procedure Law, an arbitral award shall be final and binding on the parties involved in the arbitration. If any party fails to comply with the arbitral award, the other party to the award may apply to a people’s court for its enforcement. A people’s court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural irregularity (including irregularity in the composition of the arbitration committee, the making of an award on matters beyond the scope of the arbitration agreement, or the jurisdiction of the arbitration commission).

Any party seeking to enforce an award of a foreign affairs arbitral body of the PRC against a party or whose property is not located within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the award. Likewise, an arbitral award made by a foreign arbitral body may be recognized and enforced by a PRC court in accordance with the principle of reciprocity or any international treaties concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “New York Convention”) adopted on June 10, 1958, pursuant to a resolution passed by the SCNPC on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties thereto subject to their rights to refuse recognition and enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of that state. At the time of the PRC’s accession to the Convention, the SCNPC declared that (I) the PRC would only apply the Convention to the recognition and enforcement of arbitral awards made in the territories of other parties based on the principle of reciprocity; and (II) the New York Convention will only be applied to disputes deemed under PRC laws to be arising from contractual or non-contractual mercantile legal relations.

An agreement has been reached between Hong Kong and the Supreme People’s Court of the PRC for the mutual enforcement of arbitral awards. On June 18, 1999, the Supreme People’s Court of the PRC adopted the Arrangement on Mutual Enforcement of Arbitral Awards between Mainland and Hong Kong Special Administrative Region (《關於內地與香港特別行政區相互執行仲裁裁決的安排》), which became effective on February 1, 2000. The Supreme People’s Court of China issued the Supplementary Arrangements on the Mutual Enforcement of Arbitral Awards between the Mainland and the Hong Kong Special Administrative Region (《關於內地與香港特別行政區相互執行仲裁裁決的補充安排》) on November 26, 2020, which went into effect on November 27, 2020. The arrangements reflect the spirit of the New York Convention. Pursuant to the arrangements, awards made by PRC arbitral authorities acknowledged by Hong Kong arbitration rules can be enforced in Hong Kong, and Hong Kong arbitration awards are also enforceable in mainland China. Where a court of the mainland China finds that enforcement in the mainland China of the ruling made by the Hong Kong arbitral authority will violate public interests of the mainland China, execution of the ruling may be ignored.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND THE PRC COMPANY LAW

As a joint stock limited company established in the PRC that is seeking an initial listing of shares on the stock exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing in accordance with the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

According to the PRC Company Law, a joint stock limited company may be incorporated by promotion or raising.

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Share Capital

Under the PRC Securities Law, an application for listing shall comply with the listing rules of the stock exchange.

According to the PRC Company Law, a shareholder may make capital contributions in currency, or in kind, intellectual property, land use right, stock rights, creditor’s rights or other non-monetary property that may be assessed in currency and transferred according to law, except the property that may not be used as capital contributions according to any law or administrative regulation. The non-monetary property as capital contributions shall be assessed and verified, which may not be overvalued or undervalued. If there are provisions on the assessment of value in any law or administrative regulation, such provisions shall prevail.

Restrictions on Shareholding and Transfer of Shares

Under the PRC law, the Unlisted Shares, which are denominated and subscribed for in Renminbi, can only be subscribed for and traded by PRC investors, qualified overseas institutional investors or qualified overseas strategic investors. Overseas listed shares, which are denominated in Renminbi and subscribed for in a foreign currency, may only be subscribed for, and traded by, investors from countries and regions outside the PRC or other qualified PRC institutional investors. If the H Shares are eligible securities under the Southbound Trading Link, they are also available for subscription and trading by domestic investors in the PRC pursuant to the rules and restrictions of Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect.

According to the PRC Company Law, the shares issued before a company makes a public offering of shares shall not be transferred within 1 year as of the day when the stocks of the company are listed and traded on the stock exchange. Where it is otherwise provided for in any law, administrative regulation or by the securities regulatory authority of the State Council for the transfer of shares held by the shareholders or actual controllers of a listed company, such provisions shall prevail. The directors, supervisors and senior management of the company shall declare to the company the shares they hold and the changes thereof. During the term of office as determined when they assume the posts, the shares transferred each year shall not exceed 25% of the total shares they hold of the company. The shares of the company held by them shall not be transferred within 1 year as of the day when the stocks of the company are listed and traded on the stock exchange. Any of the aforesaid persons shall not transfer the shares of the company held within six months after he/she leaves office. Any other restrictions on the transfer of company shares held by directors, supervisors or senior executives may be specified in the articles of association.

Notice of Shareholders’ Meeting

According to the PRC Company Law, notice of annual shareholder’s meeting must be given not less than 20 days before the meeting, while notice of an interim shareholders’ meeting must be given not less than 15 days before the meeting.

Quorum for Shareholder’s meeting

The PRC Company Law does not specify any quorum requirement for a shareholder’s meeting.

Voting at Shareholder’s meeting

According to the PRC Company Law, a resolution made by the shareholders’ meeting shall be adopted by the shareholders representing more than half of the voting rights.

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A resolution made by the shareholders’ meeting on modifying the articles of association, increasing or decreasing the registered capital, as well as merger, division, dissolution or change of corporate form of the company shall be adopted by the shareholders representing more than two thirds of the voting rights.

Variation of Class Rights

According to the PRC Company Law, where any of the matters occurs to a company that issues classified shares and may affect the rights of the classified shareholders, it shall not only be decided by the shareholders’ meeting, but also be adopted by shareholders representing two thirds of the voting rights who are present at the classified shareholders’ meeting.

Directors

According to the PRC Company Law, where any director directly or indirectly concludes a contract or conducts a transaction with his/her company, he/she shall report the matters relating to the conclusion of the contract or transaction to the board of directors or shareholders’ meeting, which shall be subject to the resolution of the board of directors or shareholders’ meeting according to the articles of association. Where any of the near relatives of the directors, or any of the enterprises directly or indirectly controlled by the directors, or any of their near relatives, or any of the related parties who has any other related-party relationship with the directors, concludes a contract or conducts a transaction with the company, the aforesaid provisions shall apply. Where a director is removed prior to the expiration of term of office without any justifiable reason, the director may require the company to make compensation.

The PRC Company Law, unlike the Companies Ordinance, does not contain any requirements relating to the declaration of directors’ interests in material contracts, restrictions on directors’ authority in making major dispositions, restrictions on companies providing certain benefits to directors and guarantees in respect of directors’ liability and prohibitions against compensation for loss of office without shareholders’ approval.

Board of Supervisors

According to the PRC Company Law, if a joint stock limited company has a board of supervisors, the directors and senior management of the company are subject to the supervision of the board of supervisors.

Derivative Action by Minority Shareholders

According to the PRC Company Law, where any director, supervisor or senior management violates any law, administrative regulation or the articles of association during the performance of duties and causes any loss to the company, shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the board of supervisors to initiate proceedings in the people’s court. If the supervisors violate the relevant provisions of the Company Law, the above shareholders may request in writing the board of directors to initiate litigation at the people’s court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irreparable damages to the company, the above said shareholders shall, for the benefit of the company’s interests, have the right to initiate proceedings directly to the people’s court in their own name.

The Guidelines for the articles of association of Listed Companies also provide other remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favor of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors of the company in default.

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Protection of Minorities

The PRC Company Law provides that where a company meets any serious difficulty in its operation or management, and the interests of its shareholders will be subject to heavy loss if the company survives, which cannot be solved by any other means, the shareholders who hold 10% or more of the voting rights of the company may request the people’s court to dissolve the company.

The Guidelines for the articles of association of Listed Companies also provide other remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favor of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors of the company in default.

Financial Disclosure

According to the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders’ meeting. In addition, a joint stock limited company of which the public offering Shares are offered should publish its financial report.

According to the PRC Company Law, a company shall at the end of each accounting year prepare a financial report which shall be audited by the accounting firm in accordance with the laws.

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect and copy the Articles of Association, minutes of the shareholders’ meeting, resolutions of meetings of the board of directors or board of supervisors, and financial and accounting reports.

Corporate Reorganization

According to the PRC Company Law, the merger, demerger, dissolution or change to the forms of a joint stock limited company has to be approved by shareholders at shareholder’s meeting.

Statutory Deductions

According to the PRC Company Law, a company shall draw 10% of the profits as its statutory reserve fund before it distributes any profits after taxation. When the aggregate amount of the company’s statutory reserve fund reaches 50% of the company’s registered capital, the company may no longer make allocations from the statutory reserve fund. After a company has made an allocation to its statutory reserve fund from its after-tax profit, it may make an allocation to its discretionary reserve fund from its after-tax profit upon a resolution approved at the shareholders’ meeting.

Remedies of Company

According to the PRC Company Law, if a director, supervisor or senior management in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior management should be responsible to the company for such damages.

Dividend

Under the PRC Company Law, the residual after-tax profits after a company has made up its losses and accrued reserve shall be distributed by the company in proportion to the shares held by its shareholders, except as otherwise provided for in the articles of association.

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Fiduciary Duties

Under the PRC Company Law, directors, supervisors, managers and other senior management personnel of a company have the duty of loyalty and diligence to the company. Such persons shall abide by the articles of association of the company, perform their duties honestly and diligently, safeguard the interests of the company, and shall not use their position and authority in the company for their personal gain.

Closure of Register of Members

According to the PRC Company Law, the register of shareholders shall not be modified within 20 days before any shareholders’ meeting is held, or within 5 days prior to the benchmark date decided by the company for the distribution of dividends. Where it is otherwise provided for in any law, administrative regulation or by the securities regulatory authority of the State Council for the modification of the register of shareholders of a listed company, such provisions shall prevail.

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SUMMARY OF ARTICLES OF ASSOCIATION

This appendix mainly provides investors with an overview of the Articles of Association.

The following data is only a summary and not exhaustive data that may be important to investors.

SHARES AND REGISTERED CAPITAL

The shares of the Company shall be issued in a transparent, fair and equal manner, and each share shall rank pari passu with other shares of the same class. Shares of the same class issued at the same time shall be issued with the same conditions and price per share; any individual shall pay the same price per share for the subscription of shares.

The domestic unlisted shares issued by the Company shall be registered and deposited at the domestic securities registration and settlement institution in a centralized manner. H shares issued by the Company may be kept by trustee escrow companies in accordance with laws, securities regulatory rules and requirements of securities registration and depository of the place where the Company’s shares are listed, or may also be held by shareholders in their own name.

All the shares issued by the Company are denominated in Renminbi.

SHARE ADDITIONS, REPURCHASES AND TRANSFERS

Share increase or decrease

The Company may, pursuant to a resolution passed by a general meeting of shareholders, adopt the following methods to increase its capital according to its operation and development needs and in compliance with the provisions of laws and regulations:

- (1) share issuance to unspecified parties;
- (2) share issuance to specified parties;
- (3) distribution of bonus shares to existing shareholders;
- (4) conversion of the common reserve fund into additional share capital;
- (5) other means as required by laws and administrative regulations and the relevant regulatory authorities such as China Securities Regulatory Commission (CSRC), Hong Kong Stock Exchange or the securities regulatory authorities in the place where the Company’s shares are listed.

When a company reduces its registered capital, it will prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within 10 days from the date of making the decision in a general meeting of shareholders to reduce the registered capital, and make an announcement in newspapers (or the National Enterprise Credit Information Publicity System), and the HKEXnews website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company’s official website within 30 days according to the securities regulatory rules in the place where the Company’s shares are listed. The creditors have the right to demand the Company to pay off its debts or provide corresponding guarantees within 30 days from the date of receipt of the notice, or within 45 days from the date of the announcement if it has not received the notice.

Share repurchase

The Company shall not acquire the Company’s shares except in any of the following circumstances:

- (1) reduce the registered capital of the Company;

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- (2) merger with other companies which hold shares of the Company;
- (3) use shares in employee shareholding plans or equity incentives;
- (4) the shareholder requests the Company to purchase its shares due to objection to the resolution on the merger or division of the Company made by the shareholders’ meeting;
- (5) convert shares into corporate bonds issued by the Company that can be converted into share certificates;
- (6) necessary for the Company to safeguard the Company’s value and shareholders’ interests;
- (7) other circumstances permitted by laws, regulations and rules of the securities regulatory authorities where the Company’s shares are listed.

Where the Company acquires the Company’s shares due to the circumstances specified in items (3), (5) and (6) of the above, the acquisition shall be conducted through a public centralized transaction. Where the Company acquires the Company’s shares due to the circumstances specified in items (1) and (2) of the above, the acquisition shall be subject to a resolution of the shareholders’ meeting. Where the Company acquires the Company’s shares due to the circumstances specified in items (3), (5) and (6) of the above, the acquisition shall be resolved by more than two-thirds of the directors who attended the Board meeting according to the provisions of the Articles of Association or as authorized by the shareholders’ meeting, provided that it complies with the applicable securities regulatory rules of the place where the Company’s shares are listed. For the acquisition of the Company’s shares, the Company shall perform its information disclosure obligation in accordance with the laws, regulations and rules of the regulatory authorities where the Company’s shares are listed. For the domestic unlisted shares, after the Company acquires the shares of the Company pursuant to the above provisions, it shall be deregistered within 10 days from the date of acquisition in circumstance specified in (1); the shares shall be transferred or deregistered within 6 months in circumstances specified in (2) and (4); the total number of shares of the Company held by the Company shall not exceed 10% of the total issued shares of the Company under the circumstances specified in (3), (5) and (6) and shall be transferred or deregistered within three years. Where the laws, regulations and the securities regulatory authorities of the place where the Company’s shares are listed have other provisions on the relevant matters involved in the repurchase of shares, such provisions shall prevail.

The Company may acquire the shares of the Company by public centralized transaction, or other methods approved by the laws, administrative regulations, the CSRC and the securities regulatory authorities where the Company’s shares are listed.

Transfer of shares

The shares issued by the Company prior to the public issuance of shares shall not be transferred within one year from the date of listing of the Company’s shares on the stock exchange.

Directors and senior management of the Company shall report to the Company the shares of the Company held by them and their changes. During their term of office as determined at the time of their appointment, the shares transferred each year shall not exceed 25% of the total number of shares of the same class they held in the Company. The shares of the Company shall not be transferred within one year from the date of listing. The above-mentioned personnel shall not transfer the shares of the Company held by them within half a year after their resignation. Where the laws, regulations, CSRC and/or the listing rules of the place where the Company’s shares are listed provide otherwise for restrictions on the transfer of the Company’s shares, such provisions shall prevail.

In the event that any shareholder holding 5% or more of the shares of the Company, director or senior management disposes of any shares or other equity securities held by him/her within six months from the

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date of acquiring, or acquires within six months from the date of disposing, the gains derived therefrom shall belong to the Company and be recovered by the Board of the Company. However, the securities company holds more than 5% of the shares as a result of the purchase of the remaining shares after the underwriting, and other circumstances stipulated by the CSRC shall be excluded. Where the listing rules of the place where the Company's shares are listed contain any other provisions, such provisions shall prevail. Shares or other equity securities held by the directors, senior management and shareholders of natural persons as mentioned in the preceding paragraph shall include the shares or other equity securities held by their spouses, parents, children and through the accounts of others. If the Board of the Company does not comply with the provisions of this Article, the shareholders shall have the right to request the Board to implement the provisions within 30 days. If the Board of the Company fails to carry out the enforcement within the aforesaid time limit, the shareholders shall have the right to directly initiate litigations in the People's Court for the benefit of the Company in their own name. If the Board of the Company fails to comply with the provisions of this Article, the responsible directors shall be jointly and severally liable in accordance with the law.

SHAREHOLDERS AND SHAREHOLDERS' MEETINGS

Shareholders

The Company shall establish a register of shareholders on the basis of the certificates provided by the securities depository and clearing institution, and the register of shareholders shall be a sufficient evidence that shareholders hold the shares of the company. Shareholders shall enjoy rights and assume obligations according to the class of shares they hold. Shareholders holding shares of the same class shall enjoy the same rights and assume the same obligations.

Shareholders of the Company have the following rights:

- (1) speak and vote at shareholders' meetings, unless required to abstain from voting on specific matters pursuant to the regulations of the Listing Rules of Hong Kong Stock Exchange;
- (1) have dividends and other forms of distribution of benefits based on the number of shares held by them;
- (2) lawfully request, convene, preside over, attend or appoint a shareholder's proxy to attend the shareholders' meeting, and exercise the corresponding speaking and voting rights;
- (3) supervise the operation of the Company and put forward suggestions or inquiries;
- (4) transfer, gift or pledge the shares held by it in accordance with the laws, administrative regulations and the Articles of Association;
- (5) inspect and make copies of the Articles of Association, the register of shareholders, minutes of shareholders' meetings, resolutions of the Board and financial and accounting reports, shareholders who meet the requirements may inspect the Company's accounting books and accounting certificates.
- (6) at the time of termination or liquidation, the Company shall participate in the distribution of the remaining assets of the Company according to the shares held by it;
- (7) a shareholder who disagrees with the resolution on the merger or division of the Company made by the shareholders' meeting shall require the Company to purchase its shares;
- (9) inspect the branch register of members in Hong Kong, but the Company may close the register on terms equivalent to section 632 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong);

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- (8) other rights stipulated by laws, administrative regulations, departmental rules, securities regulatory rules of the place where the Company's shares are listed or Articles of Association of the Company.

If the resolutions of the shareholders' meeting or the Board of the Company violate the laws or administrative regulations, the shareholders shall have the right to request the People's Court to determine that the resolutions are invalid. If the procedures for convening the meetings of the shareholders' meeting or the Board, or the way of voting violates the provisions of the laws, administrative regulations or the Articles of Association of the Company, or the content of the resolutions violates the provisions of the Articles of Association of the Company, the shareholders shall have the right to request the People's Court to revoke the resolutions within 60 days from the date when the resolutions are made, unless there is only a minor defect in the procedures for convening a shareholders' general meeting or the Board meeting or in the manner of voting thereat, which does not materially affect the resolution.

Shareholders of the Company have the following obligations:

- (1) comply with laws, administrative regulations and the Articles of Association;
- (2) pay the share capital in accordance with the shares subscribed for and the manner of share purchase;
- (3) shall not withdraw the shares except for the circumstances stipulated by laws and regulations;
- (4) not abuse the rights of shareholders to damage the interests of the Company or other shareholders; not to abuse the independent status of the Company as a legal person and the limited liability of shareholders to damage the interests of the creditors of the Company;
- (5) other obligations stipulated by laws, administrative regulations, the Articles of Association and securities regulatory rules of the place where the Company's shares are listed.

General requirements of shareholders' meetings

The shareholders' meeting is the organ of authority of the Company and shall exercise the following functions and powers in accordance with the law:

- (1) decide on the company's business policy and investment plan;
- (2) elect and replace directors, and decide on the remuneration of directors;
- (3) consider and approve the report of the Board;
- (4) consider and approve the company's annual financial budget program and final accounts program;
- (5) consider and approve the Company's profit distribution plan and loss recovery plan;
- (6) make resolutions on the increase or decrease of the registered capital of the Company;
- (7) make resolutions on the issuance of corporate bonds by the Company;
- (8) make resolutions on the merger, division, dissolution, liquidation of the Company or change of the Company's form;
- (9) amend the Articles of Association;

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- (10) make resolutions on the appointment and dismissal as well as the remuneration of the accounting firm responsible for the auditing of the Company;
- (11) consider and approve the guarantee matters stipulated in Article 47 and the transactions provided for in Article 48 of the Articles of Association;
- (12) consider the cumulative calculated purchase or sale of material assets by the Company reached or exceeded 30% of the Company’s most recent audited total assets within a consecutive 12-month period;
- (13) consider and approve the connected transactions between the Company and its connected persons (except for the provision of guarantees by the Company) with an amount exceeding RMB 30 million and accounting for more than 5% of the absolute value of the Company’s most recent audited total assets;
- (14) consider share incentive plans and employee share ownership plans;
- (15) consider and approve the changes in the use of proceeds;
- (16) consider other matters that shall be decided by the shareholders’ meeting as provided in the laws, administrative regulations, departmental rules, the Articles of Association or the securities regulatory rules of the place where the Company’s shares are listed.

The following external guarantees of the Company shall be considered and approved by the shareholders’ meeting:

- (1) any guarantee with a single guarantee amount exceeding 10% of the company’s latest audited net assets;
- (2) any guarantee provided after the total amount of guarantees provided by the Company and its controlled subsidiaries exceeding 50% of the latest audited net assets of the Company;
- (3) any guarantee provided to a party with an asset-liability ratio of over 70%;
- (4) guarantee amount exceeding 50% of the Company’s latest audited total assets and the absolute amount exceeds RMB50 million within twelve consecutive months;
- (5) guarantee amount exceeding 30% of the company’s latest audited total assets within twelve consecutive months;
- (6) any guarantee provided to shareholders, de facto controllers and their related parties;
- (7) other circumstances of guarantee as stipulated by the relevant authorities or the Articles of Association.

Under any of the following circumstances, the Company shall convene an extraordinary general meeting within 2 months from the date of occurrence:

- (1) the number of directors is less than the number prescribed in the Company Law or two-thirds of the number prescribed in the Articles of Association;
- (2) the unrecovered loss of the Company reaches 1/3 of the total paid-in share capital;
- (3) at the request of shareholders who individually or collectively hold more than 10% of the shares of the Company;

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- (4) when the Board deems it necessary;
- (5) when the Board of Supervisors proposes to convene;
- (6) other circumstances stipulated by laws, administrative regulations, departmental rules or the Articles of Association of the Company.

Convening of shareholders’ meeting

The Board shall convene the shareholders’ meeting in accordance with the laws and the Chairman of the Board of Directors shall preside over the meeting..

The independent directors have the right to propose in writing to the Board to convene an extraordinary general meeting. With regard to the proposal made by the independent directors for convening an extraordinary general meeting, the Board shall, in accordance with the laws, administrative regulations and the Articles of Association, provide a written response indicating whether it agree or disagree to convene the extraordinary general meeting within 10 days upon receipt of the proposal. Where the Board agrees to convene the extraordinary general meeting, a notice of convening the shareholders’ meeting shall be issued within 5 days after the resolution of the Board is made. Where the Board does not agree to convene the extraordinary general meeting, it shall provide reasons and make an announcement.

The Audit Committee shall propose to the Board to convene of an extraordinary general meeting in writing. The Board shall, in accordance with the laws, administrative regulations and the Articles of Association, provide a written response indicating whether it agree or disagree to convene the extraordinary general meeting within 10 days upon receipt of the proposal. Where the Board agrees to convene the extraordinary general meeting, a notice of convening the shareholders’ meeting shall be issued within 5 days after the resolution of the Board is made, and the changes to the original proposal in the notice shall be agreed with the Audit Committee. Where the Board does not agree to convene the extraordinary general meeting, or fails to give feedback within 10 days after receiving the proposal, the Board shall be deemed to be unable to perform or fail to perform its duties of convening the shareholders’ meeting, and the Audit Committee may convene and preside over the meeting by itself.

Shareholders who individually or collectively hold more than 10% of the Company’s shares have the right to request the Board to convene an extraordinary general meeting in writing. The Board shall, in accordance with the provisions of laws, administrative regulations and the Articles of Association, provide a written response indicating whether it agree or disagree to convene the extraordinary general meeting within 10 days upon receipt of the request. Where the Board agrees to convene the extraordinary general meeting, a notice of convening the shareholders’ meeting shall be issued within 5 days after the resolution of the Board is made, and the changes to the original request in the notice shall be agreed with relevant shareholders. Where the Board does not agree to convene the extraordinary general meeting, or fails to give feedback within 10 days after receiving the request, shareholders individually or collectively holding more than 10% of the Company’s shares have the right to propose to the Audit Committee to convene an extraordinary general meeting in writing.

Where the Audit Committee agrees to convene an extraordinary general meeting, it shall issue a notice to convene the shareholders’ meeting within 5 days of receiving the request, and the changes to the original request in the notice shall be agreed with relevant shareholders. Where the Audit Committee fails to issue a notice of the shareholders’ meeting within the prescribed period, the Audit Committee shall be deemed to not convene or preside over the shareholders’ meeting, and the shareholders who individually or collectively hold more than 10% of the Company’s shares for more than 90 consecutive days may convene and preside over the meeting on their own.

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Notice of shareholders’ meeting

The convener will notify shareholders by announcement 20 days before the annual shareholders’ meeting, and for the extraordinary shareholders’ meeting, shareholders will be notified by announcement 15 days before the meeting. . When calculating the starting period, the Company shall not include the date of the meeting. Notice of shareholders’ meeting shall be given to shareholders in a manner consistent with the laws, administrative regulations, the Listing Rules of the Hong Kong Stock Exchange, securities regulatory rules of the place where the Company’s shares are listed and the Articles of Association.

The notice of the shareholders’ meeting includes the following:

- (1) time, place and duration of the meeting;
- (2) matters and proposals submitted to the meeting for consideration;
- (3) explain in obvious words: All shareholders have the right to attend the shareholders’ meeting and can entrust a proxy in writing to attend the meeting and participate in voting. The shareholder’s proxy does not have to be a shareholder of the Company;
- (4) equity registration date of shareholders who have the right to attend the shareholders’ meeting;
- (5) name and telephone number of the permanent contact person for conference affairs;
- (6) voting time and voting procedures online or by other means.

All specific contents of all proposals shall be fully and completely disclosed in the shareholder meeting notice and supplementary notice.

Proposals of shareholders’ meeting

The content of the proposal should fall within the scope of functions of the shareholders’ meeting, have clear topics and specific resolution matters, and comply with the relevant provisions of laws, administrative regulations, securities regulatory rules of the place where the Company’s shares are listed and Articles of Association.

When the Company convenes a shareholders’ meeting, the Board, the Audit Committee and shareholders individually or jointly holding more than 3% of the Company’s shares have the right to propose proposals to the Company.

Shareholders who individually or collectively hold 3% or more of the Company’s shares may make a provisional proposal and submit it in writing to the convener 10 days before the shareholders’ meeting. The convener shall issue a supplementary notice of the shareholders’ meeting within 2 days of receipt of the proposal, announcing the content of the provisional proposal, and the provisional proposal shall be submitted to the shareholders’ meeting for deliberation, unless the provisional proposal is in violation of any law, administrative regulation or the Articles of Association or fails to fall into the scope of functions of the shareholders’ meeting.

Save for the circumstances specified in the preceding paragraph, the convener shall not modify the proposals listed in the notice of shareholders’ meeting or add new proposals after issuing the notice of shareholders’ meeting.

Proposals that are not listed in the notice of shareholders’ meeting or do not comply with the provisions of the Articles of Association shall not be voted on and resolutions made by the shareholders’ meeting.

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Delegations of the shareholders’ meeting

Shareholders may attend the shareholders’ meeting in person or entrust a proxy to attend and vote on their behalf. Each shareholder has the right to appoint a proxy, but the proxy does not need to be a shareholder of the Company. The proxy may exercise the following rights in accordance with the entrustment of such shareholder:

- (1) the shareholder’s right to speak at a shareholders’ meeting;
- (2) individually, or collectively with others, request to vote by poll;
- (3) exercise the right to vote by hands or on a poll, unless otherwise prescribed by relevant laws, administrative regulations, the Listing Rules of the Hong Kong Stock Exchange or other securities regulatory rules of the place where the Company’s shares are listed.

If an individual shareholder attends the meeting in person, he/she shall produce his/her identity card or other valid documents or certificates that can identify him/herself, if a shareholder authorizes a proxy to attend a meeting on his/her behalf, the proxy shall produce his/her own valid identity card and the power of attorney from the shareholder.

Legal person shareholders shall be represented by their legal representative or a proxy entrusted by the legal representative to attend the meeting. If a legal representative attends the meeting, he or she shall present his or her identity card and a valid certificate proving his or her qualifications as a legal representative; if a proxy is appointed to attend the meeting, the proxy shall present his or her identity card and a written power of attorney issued by the legal representative of the legal person shareholder unit in accordance with the law (except where the shareholder is a recognized clearing house or its proxy (hereinafter referred to as the “Recognized Clearing House”) as defined in the relevant regulations of Hong Kong law in force from time to time or the securities regulatory rules of the place where the Company’s shares are listed).

If the shareholder is a Recognized Clearing House (or its proxy), the Recognized Clearing House may authorize one or more persons it considers appropriate to act as its representative at any shareholders’ meeting or any creditors’ meeting; however, if more than one person is authorized, the power of attorney should specify the number and type of shares for each such person authorized by such authorization. A person so authorized may exercise rights on behalf of a Recognized Clearing House (without showing shareholding certificates, subject to notarized authorization and/or further evidence confirming that it is duly authorized) as if such person were an individual shareholder in the Company.

The power of attorney issued by a shareholder to entrust others to attend the shareholders’ meeting shall specify the following contents:

- (1) the name of the proxy;
- (2) the number of shares represented by proxy;
- (3) Whether or not they have the right to vote;
- (4) specific instructions from shareholders, including instructions to vote for, against or abstain from voting on each and every issue included in the agenda of the shareholders meeting. If the shareholder does not give specific instructions, the proxy should state whether the shareholder’s agent may vote as he or she sees fit.;
- (5) the date of issuance and validity period of the power of attorney;

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- (6) signature (or seal) of the trustor. If the trustor is a legal person shareholder, the seal of the legal person entity shall be affixed. If the trustor is a shareholder of the partnership, the seal of the partnership shall be affixed.

Voting on the Shareholders’ meeting

Resolutions of shareholders’ meetings are divided into ordinary resolutions and special resolutions.

Ordinary resolutions made on the shareholders’ meeting shall be passed by more than half of the voting rights held by shareholders (including shareholders’ proxies) present at the shareholders’ meeting.

Special resolutions made on a shareholders’ meeting shall be passed by more than two-thirds of the voting rights held by shareholders (including shareholders’ proxies) present at the shareholders’ meeting.

The following matters shall be passed by ordinary resolutions at the shareholders’ meeting:

- (1) work reports of the Board;
- (2) the profit distribution plan and loss recovery plan drawn up by the Board;
- (3) the appointment and removal of members of the Board and their remuneration and payment methods;
- (4) the annual budget program and annual final accounts program of the Company;
- (5) the annual report of the Company;
- (6) other matters that shall be passed by special resolutions except those stipulated by laws, administrative regulations, securities regulatory rules of the place where the Company’s shares are listed or the Articles of Association.

The following matters shall be passed by special resolutions at the shareholders’ meeting:

- (1) the Company increases or decreases its registered capital;
- (2) the division, spin-off, merger, dissolution and liquidation of the Company;
- (3) modification of the Articles of Association;
- (4) the Company purchases or sells major assets within one year or the amount of guarantee provided to others exceeds 30% of the Company’s latest audited total assets;
- (5) equity incentive plan;
- (6) other matters that are stipulated in laws, administrative regulations, securities regulatory rules of the place where the Company’s shares are listed or the Articles of Association, as well as those that are determined by the shareholders’ meeting to have a significant impact on the Company through ordinary resolutions and need to be passed through special resolutions.

Shareholders (including shareholders’ proxies) exercise their voting rights based on the number of voting shares they represent, and each share is entitled to one vote. However, the Company’s shares held by the Company carry no voting rights, and such shares are not included in the total number of voting shares held by shareholders present.

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When the shareholders’ meeting considers major matters affecting the interests of small and medium-sized investors, the votes of small and medium-sized investors shall be counted separately. The results of separate vote counting shall be disclosed to the public in a timely manner.

The Company’s shares held by the Company carry no voting rights, and such shares are not included in the total number of voting shares held by shareholders present.

According to applicable laws and regulations and the Listing Rules of the Hong Kong Stock Exchange, if any shareholder is required to give up voting rights on a certain resolution, or any shareholder is restricted from voting in support of (or against) a certain resolution, such votes cast by such shareholders or their representatives in violation of relevant regulations or restrictions shall not be counted in the total number of shares with voting rights.

If a shareholder violates the provisions of paragraphs 1 and 2 of Article 63 of the Securities Law by purchasing shares of the Company with voting rights, the shares exceeding the prescribed proportion shall not exercise voting rights within 36 months after purchase and is not included in the total number of shares with voting rights present at the shareholders’ meeting.

The Board, independent directors and shareholders holding more than 1% of the voting shares or investor protection institutions established in accordance with laws, administrative regulations or the provisions of the CSRC may solicit shareholder voting rights. When soliciting shareholder voting rights, specific voting intentions and other information must be fully disclosed to the persons being solicited. It is prohibited to collect voting rights from shareholders through paid or disguised payment methods. Except for statutory conditions, the Company may not impose minimum shareholding ratio restrictions on the solicitation of voting rights.

DIRECTORS AND THE BOARD

Directors

Directors are elected or changed by the shareholders’ meeting. The term of directors is three years. Upon expiration of the term, directors may be re-elected.

The term of office of a director shall be calculated from the date of assuming office until the expiration of the term of the current Board. If a director’s term of office expires and is not re-elected in time, until the re-elected director takes office, the original director shall still perform his or her duties as a director in accordance with the provisions of laws, administrative regulations, departmental rules and the Articles of Association. Directors may resign before the expiration of their terms of office. A director’s resignation shall be submitted in writing to the Board. The board of directors shall disclose the situation within two trading days. If the resignation of a director results in the number of directors on the board of the Company being lower than the legally prescribed minimum number, the original director shall continue to perform the duties of a director in accordance with the laws, administrative regulations, departmental rules, the securities regulatory rules of the stock exchange where the Company’s shares are listed, and this articles of association until the newly elected director takes office.

The senior management may concurrently serve as a director, provided that the aggregate number of the directors who concurrently serve as the senior management, shall not exceed one half of all the directors of the Company.

The Board of the Company shall have one employee representative director, who shall be democratically elected by the employees of the Company through the employee representative meeting or other forms.

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The chairman of the Board

The Board of the Company has one chairman of the Board in place. The chairman of the Board is elected by more than half of all of the directors.

The chairman of the Board exercises the following functions and powers:

- (1) preside over shareholders’ meetings and convene and preside over Board meetings;
- (2) supervise and inspect the implementation of Board resolutions;
- (3) signing company stocks, corporate bonds, other securities, and other important board documents;
- (4) in the event of force majeure emergencies such as natural disasters, exercising special disposal rights over company affairs that are consistent with legal regulations and the company’s interests, and reporting to the company’s board of directors and shareholders’ meeting afterward;
- (5) other authorities granted by the board of directors.

If the chairman of the Board is unable or fails to perform his or her duties, more than half of the directors shall jointly elect a director to perform such duties.

The Board

The Board consists of 9 directors, consisting of 3 independent directors.

The Board exercises the following functions and powers:

- (1) convene shareholders’ meetings and report work to the shareholders’ meeting;
- (2) implement the resolutions of the shareholders’ meeting;
- (3) determine the Company’s business plan and investment plan;
- (4) formulate the Company’s annual financial budget program and annual final accounts program;
- (5) formulate the Company’s profit distribution plan and loss recovery plan;
- (6) formulate plans for the Company to increase or reduce its registered capital, issue bonds or other securities and for the listing;
- (7) formulate plans for the Company’s major acquisitions, the Company’s acquisition of the Company’s shares, or merger, division, dissolution and change of form of the Company;
- (8) determine external guarantees that do not meet the criteria for consideration by the shareholders’ meeting as stipulated in Article 47 of these Articles of Association. ;
- (9) determine the transactions provided for in Article 112 of these Articles of Association;
- (10) determine the establishment of the Company’s internal management structure;
- (11) determine the appointment or removal of the manager of the Company, the secretary to the Board and other senior management and to decide on their remunerations and rewards and penalties; to determine the appointment or removal of the deputy manager, chief financial officer and other senior management of the Company based on the nomination by the manager and to decide on matters about their remunerations and rewards and penalties.

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- (12) appoint or dismiss of securities representative and head of Audit Department;
- (13) formulate the basic management system of the Company;
- (14) formulate proposals for amendment to the Articles of Association;
- (15) manage information disclosure of the Company;
- (16) propose the appointment or removal of the accounting firm for the Company's audit to the shareholders' meeting;
- (17) receive the work report and inspect the work of the manager of the Company;
- (18) formulate and actualize the Company's equity incentive program;
- (19) submit proposals to the shareholders' meeting;
- (20) other functions and powers conferred by laws, administrative regulations, departmental rules, securities regulatory rules of the place where the Company's shares are listed, the Articles of Association or the shareholders' meeting.

Any matters that are beyond the scope of authorization of the shareholders' meeting shall be submitted for consideration at the shareholders' meeting.

The Board shall meet at least 2 times a year, at the call of the chairman of the Board. Regular meetings of the Board referred to in this Article shall be notified in writing to all directors ten (10) days prior to the meeting.

Shareholders representing more than 1/10 of the voting rights, more than 1/3 of the directors or the Audit Committee may propose to convene an extraordinary meeting of the Board. The chairman of the Board shall convene and preside over the Board meeting within 10 days after receiving the proposal.

The methods of notification for the extraordinary meeting of the Board are: written methods such as personal delivery, mail, fax, and email. The notification time limit is: two (2) days prior to the meeting. In case of special circumstances requiring the prompt convening of the extraordinary meeting of the Board, the meeting notice may be issued at any time via telephone or other oral means, but the convener shall provide an explanation during the meeting.

Board meetings should be attended by more than half of the directors. Resolutions made by the Board should be approved by more than half of all directors. When external guarantees are submitted to the Board for consideration, they shall be approved by more than two-thirds of the directors present at the Board of Directors' meeting. Matters relating to connected transactions shall be approved by a majority of the unrelated directors. Voting on resolutions of the Board is based on one person, one vote.

Directors who are related to the corporates or individuals involved in the matters resolved at the Board meeting may not exercise voting rights on the resolution, nor may they exercise voting rights on behalf of other directors. The Board meeting may be held if more than half of the unrelated directors are present, and resolutions made at the Board meeting shall be passed by more than half of the unrelated directors. If the number of unrelated directors present at the Board is less than 3, the matter shall be submitted to the shareholders' meeting for consideration.

Board meetings shall be attended by the director in person; if a director is unable to attend for any reason, he or she may authorize another director in writing to attend on his or her behalf. The power of attorney shall state the name of the proxy, matters of proxy, scope of authorization and validity period, and

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shall be signed or stamped by the trustor. Directors who attend meetings on their behalf shall exercise the rights of directors within the scope of authorization. If a director fails to attend a Board meeting or appoint a representative to attend, he or she shall be deemed to have given up his or her right to vote at the meeting.

Audit Committee of the Board

The Board of the Company has an Audit Committee in place to exercise the functions and powers of the Board of Supervisors as stipulated in the Company Law.

The Audit Committee consists of three members, who are directors who do not hold senior management positions in the Company, including two independent directors, with an accounting professional among the independent directors serving as the convenor.

The Audit Committee is responsible for reviewing the Company’s financial information and its disclosure, supervising and evaluating the internal and external audits and internal controls. The following matters shall be submitted to the Board for consideration after being approved by a majority of all members of the Audit Committee:

- (1) disclose financial information in financial accounting reports and periodic reports, internal control evaluation reports;
- (2) appoint or dismiss the accounting firm that undertakes audits of listed companies;
- (3) appoint or dismiss the financial controller of listed company;
- (4) change accounting policies and accounting estimates or correct material accounting errors made for reasons other than changes in accounting standards;
- (5) other matters as stipulated by laws, administrative regulations, CSRC regulations, securities regulatory rules of the place where the Company’s shares are listed and the Articles of Association.

The Audit Committee meets at least once a quarter. An extraordinary meeting may be convened upon the proposal of two or more members, or when the convenor deems it necessary. Meetings of the Audit Committee may only be held if more than two-thirds of the members are present.

Other special committees of the Board

The Board of the Company sets up other special committees, such as the Strategy Committee, Nomination Committee and the Remuneration and Evaluation Committee, to perform their duties in accordance with the Articles of Association and the authorization of the Board, and the proposals of the special committees shall be submitted to the Board for consideration and decision. The Board shall be responsible for formulating the working procedures of the special committees. The composition of the special committees shall comply with the laws, administrative regulations, departmental rules, the Listing Rules of Hong Kong Stock Exchange and other securities regulatory rules of the place where the Company’s shares are listed or the relevant requirements stipulated by the relevant regulatory authorities.

Senior management

The Company has a manager, several deputy managers, a financial officer and a Board secretary, all of whom are appointed or dismissed by the Board..

The Company’s manager is elected for a term of three years, and may be re-appointed.

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The manager is responsible to the Board and exercises the following functions and powers:

- (1) preside over the Company’s production, operation and management work, organize the implementation of Board resolutions, and report work to the Board;
- (2) organize and implement the Company’s annual business plan and investment plan;
- (3) formulate a plan for the establishment of the Company’s internal management organization;
- (4) formulate the Company’s basic management system;
- (5) formulate specific regulations of the Company;
- (6) propose to the Board to appoint or dismiss the Company’s deputy manager, financial officer;
- (7) decide on the appointment or dismissal of management personnel other than those who shall be appointed or dismissed by the Board;
- (8) propose to convene the extraordinary meeting of the Board;
- (9) other powers granted by the Articles of Association or by the Board.

The manager attends Board meetings.

Matters that are not subject to deliberation and decision—making by the shareholders’ meeting and the board of directors in accordance with laws, administrative regulations and the company’s articles of association shall be decided by the manager. The manager shall make decisions on the company’s daily operational matters.

QUALIFICATIONS AND OBLIGATIONS OF THE DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

Persons under any of the following circumstances cannot serve as a director or senior management of the Company:

- (1) have no capacity for civil conduct or have limited capacity for civil conduct;
- (2) if sentenced to a criminal penalty for corruption, bribery, misappropriation of property, misappropriation of property or undermining the order of the socialist market economy, or is deprived of political rights for a crime, and if the execution period has not expired for more than 5 years and the person is sentenced to probation, and it has not been more than 2 years since the expiration of the probation period;
- (3) serving as a director, factory director or manager of a company or enterprise undergoing bankruptcy liquidation, and being personally responsible for the bankruptcy of such company or enterprise, and it has been less than 3 years since the date of completion of the bankruptcy liquidation of such company or enterprise;
- (4) serving as the legal representative of a company or enterprise that has had its business license revoked or ordered to close due to illegal activities with bearing personal responsibility, and it has not been more than 3 years since such company or enterprise was revoked of its business license or ordered to close;
- (5) listed as a dishonest person subject to execution by the People’s Court since a relatively large amount of debt has not been paid off when due;

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- (6) be taken measures by CSRC to prohibit entry into the securities market with the time limit not expired;
- (7) be recognized as unsuitable to be a director, senior management, etc. of a listed company by the securities regulatory rules of the place where the Company’s shares are listed with the time limit not expired;
- (8) other contents stipulated in laws, administrative regulations, departmental rules or securities regulatory rules of the place where the Company’s shares are listed.

In the event that any shareholder holding 5% or more of the shares of the Company, director or senior management disposes of any shares or other equity securities held by him/her within six months from the date of acquiring, or acquires within six months from the date of disposing, the gains derived therefrom shall belong to the Company and be recovered by the Board of the Company. However, the securities company holds more than 5% of the shares as a result of the purchase of the remaining shares after the underwriting, and other circumstances stipulated by the CSRC shall be excluded. Where the listing rules of the place where the Company’s shares are listed contain any other provisions, such provisions shall prevail.

FINANCIAL ACCOUNTING SYSTEM

The Company formulates its financial accounting system in accordance with laws, administrative regulations, securities regulatory rules of the place where the Company’s shares are listed and regulations of relevant national departments.

The Company prepares annual financial accounting report within four months from the end of each accounting year and interim financial accounting report within two months from the end of the first six months of each accounting year.

The aforesaid financial accounting reports are prepared and published in accordance with the relevant laws, administrative regulations, China securities regulatory commission and other securities regulatory rules of the places where the Company’s shares are listed.

Other than the statutory accounting books, the Company will not maintain separate accounting books. The Company’s assets are not stored in accounts opened in any individual’s name.

When the Company distributes after-tax profits for the year, it shall withdraw 10% of the profits and include them in the Company’s statutory reserve fund. If the cumulative amount of the Company’s statutory reserve fund is more than 50% of the Company’s registered capital, no further withdrawals may be made.

If the Company’s statutory reserve fund is insufficient to make up for losses in previous years, it shall first utilize the current year’s profits to make up for the losses before withdrawing the statutory reserve fund in accordance with the provisions of the preceding paragraph.

After the Company withdraws the statutory reserve fund from the after-tax profits, it can also withdraw the discretionary reserve fund from the after-tax profits upon resolution of the shareholders’ meeting.

The remaining after-tax profits after the Company has made up for its losses and withdrawn the reserve fund shall be distributed according to the proportion of shares held by shareholders.

If the shareholders’ meeting violates the Company Law and distributes profits to shareholders, shareholders shall return the profits distributed in violation of the regulations to the Company. If any loss is caused to the Company, the shareholders and the responsible directors and senior management shall be liable for compensation.

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The Company’s shares held by the Company will not participate in the distribution of profits.

The Company shall appoint one or more collection agents in Hong Kong for H share shareholders. The collection agent shall collect and keep the dividends distributed by the Company in respect of H shares and other amounts payable on behalf of the relevant H-share holders, to make payments to such H-share holders. The collection agent appointed by the Company shall comply with the requirements of laws, regulations and the securities regulatory rules of the place where the Company’s shares are listed.

The Company’s reserve fund is used to make up for the Company’s losses, expand the Company’s production and operations, or increase the Company’s registered capital. However, the capital company reserve may not be used to cover losses of the company.

When the statutory reserve fund is converted to increase the registered capital, the remaining reserve fund will not be less than 25% of the Company’s registered capital prior to the conversion.

INTERNAL AUDIT

The Company implements an internal audit system, appoints full-time auditors, and conducts internal audit supervision over the company’s financial revenues and expenditures as well as economic activities. The company’s internal audit system and the responsibilities of the auditors shall be implemented after approval by the board of directors. The head of the audit department is accountable to the Board and reports to it.

APPOINTMENT OF ACCOUNTING FIRM

The Company engages an accounting firm that complies with the provisions of the Securities Law to conduct accounting statement audits, net asset verification and other related consulting services. The appointment period is one year and can be renewed.

The Company’s appointment and dismissal of an accounting firm shall be submitted to the Board for deliberation and decided by the shareholders’ meeting after being approved by a majority of all the members of the Audit Committee. The Board may not appoint an accounting firm before a decision is made at the shareholders’ meeting.

The Company guarantees to provide true and complete accounting vouchers, accounting books, financial accounting reports and other accounting information to the accounting firm engaged, and shall not refuse, conceal or make false statements.

MERGERS, DIVISIONS, CAPITAL INCREASES AND CAPITAL REDUCTIONS

Company mergers may take the form of mergers by absorption or mergers by new establishment.

When a company absorbs other companies, it is called a merger by absorption, and the absorbed company is dissolved. The merger of two or more companies to establish a new company is a merger by new establishment, and the merging parties are dissolved.

If the Company merges, the merging parties shall sign a merger agreement and prepare a balance sheet and property list. The Company shall notify creditors within 10 days from the date of making the merger resolution, and shall make an announcement within 30 days in newspapers (or the National Enterprise Credit Information Disclosure System) and the Hong Kong Stock Exchange’s HKEXnews website (www.hkexnews.hk) and the Company’s official website according to securities regulatory rules of the place where the Company’s shares are listed.

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Creditors may require the Company to pay off debts or provide corresponding guarantees within 30 days from the date of receipt of the notice, or within 45 days from the date of announcement if no notice is received.

If the Company merges, the claims and debts of the merging parties shall be inherited by the continuing company or the newly established company after the merger.

If the Company is divided, its property will be divided accordingly.

If the Company is divided, a balance sheet and property list shall be prepared. The Company shall notify its creditors within 10 days from the date of making the division resolution, and shall make an announcement within 30 days in newspapers (or the National Enterprise Credit Information Disclosure System) and the Hong Kong Stock Exchange’s HKEXnews website (www.hkexnews.hk) and the Company’s official website according to securities regulatory rules of the place where the Company’s shares are listed.

The debts incurred before the Company is divided shall be jointly and severally liable by the companies after the division. However, this shall not be the case unless otherwise agreed upon in a written agreement between the Company and its creditors regarding debt settlement before the division.

If the Company needs to reduce its registered capital, it must prepare a balance sheet and property list.

The Company shall notify creditors within 10 days from the date of making the resolution to reduce the registered capital at the shareholders’ meeting, and shall make an announcement within 30 days in newspapers (or the National Enterprise Credit Information Disclosure System) and the Hong Kong Stock Exchange’s HKEXnews website)(www.hkexnews.hk) and the Company’s official website according to securities regulatory rules of the place where the Company’s shares are listed. Creditors have the right to require the Company to pay off debts or provide corresponding guarantees within 30 days from the date of receipt of the notice, or within 45 days from the date of announcement if no notice is received.

The registered capital of the Company after the capital reduction will not be less than the legal limit, unless otherwise provided by law or these Articles of Association.

If the Company is merged or divided and the registered items are changed, the registration of the change shall be carried out with the Company registration authority in accordance with the law; if the Company is dissolved, the registration of the cancellation of the Company shall be carried out in accordance with the law; if a new company is established, the registration of the establishment of such company shall be carried out in accordance with the law.

If the Company increases or decreases its registered capital, it shall apply for a registration of the change with the Company registration authority in accordance with the law.

DISSOLUTION AND LIQUIDATION

The Company will be dissolved for the following reasons:

- (1) the business period stipulated in the Articles of Association expires or other reasons for dissolution stipulated in the Articles of Association occur;
- (2) the shareholders’ meeting makes a resolution to dissolve;
- (3) dissolution is required due to company merger or division;
- (4) the business license has been revoked, ordered to close, or revoked in accordance with the law;

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- (5) if the Company encounters serious difficulties in its operation and management, and its continued existence will cause heavy losses to the interests of shareholders, and cannot be solved through other means, shareholders holding more than 10% of the voting rights of all shareholders of the Company may request the People’s Court to dissolve the Company.

If the Company encounters the above-mentioned reasons for dissolution, it shall publicize the reasons for dissolution through the National Enterprise Credit Information Publicity System within ten days.

The liquidation team shall exercise the following functions and powers during the liquidation period:

- (1) clean up the Company’s properties and prepare a balance sheet and property list respectively;
- (2) notify and announce creditors;
- (3) handle the Company’s uncompleted businesses related to liquidation;
- (4) pay the taxes owed and the taxes incurred during the liquidation process;
- (5) clear claims and debts;
- (6) distribute the Company’s remaining property after paying off its debts;
- (7) participate in civil litigation activities on behalf of the Company.

The liquidation team shall notify creditors within 10 days from the date of establishment, and shall publish an announcement within 60 days in newspapers (or the National Enterprise Credit Information Publicity System) and the Hong Kong Stock Exchange’s HKExnews website (www.hkexnews.hk) according to the securities regulatory rules in the place where the Company’s shares are listed. Creditors shall declare their claims to the liquidation team within 30 days from the date of receipt of the notice, or within 45 days from the date of announcement if the notice is not received.

When a creditor declares claims, he or she shall explain the relevant matters of the claims and provide supporting materials. The liquidation team shall register the claims.

During the period of reporting claims, the liquidation team shall not make settlements with creditors.

After cleaning up the Company’s assets and preparing a balance sheet and property list, the liquidation team shall formulate a liquidation plan and submit it to the shareholders’ meeting or the People’s Court for confirmation.

The Company’s property is the remaining property after paying liquidation expenses, employees’ wages, social insurance fees and statutory compensation, paying taxes owed, and settling the Company’s debts respectively, and the Company distributes the remaining property according to the proportion of shares held by shareholders.

During the liquidation period, the Company continues to exist, but it cannot carry out business activities unrelated to the liquidation. The Company’s property will not be distributed to shareholders before it is settled in accordance with the provisions of the preceding paragraph.

After clearing the Company’s property and preparing a balance sheet and property list, if the liquidation team finds that the Company’s property is insufficient to pay off its debts, it shall apply to the People’s Court for liquidation of bankruptcy in accordance with the law.

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After the People’s Court accepts the bankruptcy application, the liquidation team shall transfer the liquidation matters to the bankruptcy administrator designated by the People’s Court.

After the Company’s liquidation is completed, the liquidation team shall prepare a liquidation report, submit it to the shareholders’ meeting or the People’s Court for confirmation, and submit it to the Company registration authority to apply for cancellation of the Company registration.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Under any of the following circumstances, the Company shall amend the Articles of Association:

- (1) after the Company Law or relevant laws, administrative regulations are amended, the matters stipulated in the Articles of Association contradict with the provisions of the revised laws, administrative regulations, or securities regulatory rules of the place where the Company’s shares are listed;
- (2) the Company’s situation changes and is inconsistent with the matters recorded in the Articles of Association;
- (3) the shareholders’ meeting makes a resolution to amend the Articles of Association.

If the amendments to the Articles of Association passed by the resolution of the shareholders’ meeting should be reviewed and approved by the competent authority, they must be reported to the competent authority for approval; if such amendments involve Company registration matters, the registration of the amendments shall be handled in accordance with the law.

The Board amends the Articles of Association in accordance with the resolution of the shareholders’ meeting to amend the Articles of Association and the approval of the relevant competent authorities.

Amendments to the Articles of Association are the information required to be disclosed in accordance with the provisions of the laws, regulations, and shall be announced as required.

APPENDIX VI

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A. FURTHER INFORMATION ABOUT OUR GROUP

1. Establishment of Our Company

Our Company was established as a joint stock company with limited liability in the PRC on July 9, 2012 and was converted to a joint stock company with limited liability under the laws of the PRC with effect from June 15, 2022. As of the Latest Practicable Date, the registered capital of our Company was RMB50,000,000 divided into 50,000,000 Unlisted Shares with a nominal value of RMB1.00 each.

Our Company has established a principal place of business in Hong Kong at Room 1912, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong and [has been] registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on [●], 2025. Ms. Lau Yee Wa, our company secretary, 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.

As our Company was established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in “Appendix V—Summary of Articles of Association” to this document.

2. Changes in the Share Capital of Our Company

Save as disclosed in the section headed “History, Development and Corporate Structure—Establishment and Major Shareholding Changes of Our Company”, there has been no other alteration in the 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 as of December 31, 2024 are set out in the Accountants’ Report in Appendix I to this document.

Details of the changes in the share capital of the Company’s subsidiaries within the two years immediately preceding the date of this document are set out below:

(a) on November 23, 2023, Zhiwu Shengyuan was incorporated with an initial registered capital of RMB5,000,000;

(b) on January 4, 2024, Xi’an Tiancheng Zhijia was incorporated with an initial registered capital of RMB1,000,000;

(c) on March 4, 2024, Changxing Yiguan Xinrong was incorporated with an initial registered capital of RMB1,000,000;

(d) on October 25, 2024, the registered capital of Xi’an Tiancheng Zhijia was reduced from RMB1,000,000 to RMB550,000; and

(e) on December 23, 2024, the registered capital of Xi’an Tiancheng Zhijia was increased from RMB550,000 to RMB1,000,000.

Save as disclosed above, there had been no other alterations of share capital of our subsidiaries within the two years preceding the date of this document.

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4. Restriction of Share Repurchase

For details of the restrictions on the share repurchase by our Company, see “Appendix V—Summary of Articles of Association” to this document.

5. Resolutions of Our Shareholders

Pursuant to the resolutions passed by our Shareholders on May 20, 2025, it was resolved, among others, that:

(a) the issue of H Shares with a nominal value of RMB1.00 each shall be approved and such H Shares shall be listed on the Stock Exchange;

(b) the number of H Shares to be issued shall be no more than 25% of the total issued share capital of our Company as enlarged by the [REDACTED] before the exercise of the [REDACTED];

(c) subject to the filing with CSRC is completed, the Conversion of Unlisted Shares into H Shares upon completion of the [REDACTED] shall be approved;

(d) subject to the completion of the [REDACTED], the conditional adoption of the Articles of Association, which shall become effective on the Listing Date; and

(e) our Board and/or its authorized person(s) have been authorized to handle all relevant matters relating to, among other things, the [REDACTED], the issue of H Shares and the Listing.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this document that are or may be material:

- (a) the capital increase agreement dated May 13, 2025 entered into among Beijing Piaoplus Ecommerce Co., Ltd. (北京影時光電子商務有限公司), Shanghai Ruyi Xingchen Enterprise Management Co., Ltd. (上海儒意星辰企業管理有限公司), our Company, Chen Wei (陳威), Huang Jin (黃今), and Bai Jie (柏潔), to increase the registered capital of our Company;
- (b) the shareholders’ agreement dated May 13, 2025 entered into among our Company, Beijing Piaoplus E-Commerce Co., Ltd. (北京影時光電子商務有限公司), Shanghai Ruyi Xingchen Enterprise Management Co., Ltd. (上海儒意星辰企業管理有限公司), Guozhong Private Equity Investment Fund (Xi’an) Partnership (Limited Partnership) (國中私募股權投資基金(西安) 合夥企業(有限合夥)), Zhuhai Hewang Investment Partnership Enterprise (Limited Partnership) (珠海合望投資合夥企業(有限合夥)), Qingdao Runren Equity Investment Partnership Enterprise (Limited Partnership) (青島潤仁股權投資合夥企業(有限合夥)), Qianhai Equity Investment Fund (Limited Partnership) (前海股權投資基金(有限合夥)), Qianhai Equity Fund, Zhongyuan Qianhai Equity Investment Fund (Limited Partnership) (中原前海股權投資基金(有限合夥)), Qianhai Ark Assets Management Co., Ltd. (前海方舟資產管理有限公司), Shenzhen Guozhong SME Development Private Equity Investment Fund Partnership (Limited Partnership) (深圳國中中小企業發展私募股權投資基金合夥企業(有限合夥)), CICC Cultural Consumption Industry Equity Investment Fund (Xiamen) Partnership Enterprise (Limited Partnership) (中金文化消費產業股權投資基金(廈門)合夥企業(有限合夥)), Shengjun Jujia (Xiamen) Equity Investment Partnership Enterprise (Limited Partnership) (聖俊駒嘉(廈門)股權投資合夥企業(有限合夥)), Kunshan Three Thousand World Sagittarius Venture Investment Partnership Enterprise (Limited Partnership) (昆山三千世界射手座創業投資合夥企業(有限合夥)), Suzhou Industrial Park Qiming Rongke Equity Investment

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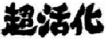


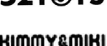
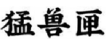
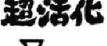







Partnership Enterprise (Limited Partnership) (蘇州工業園區啟明融科股權投資合夥企業(有限合夥)), Chongqing Shengmei No. 4 Film and Television Industry Equity Investment Fund Partnership Enterprise (Limited Partnership) (重慶盛美四號影視產業股權投資基金合夥企業 (有限合夥)), Chengdu Hongdao No. 5 Venture Investment Center (Limited Partnership) (成都弘道五號創業投資中心(有限合夥)), Suzhou Boxiang Equity Investment Partnership Enterprise (Limited Partnership) (蘇州博祥股權投資合夥企業(有限合夥)), Suzhou Qingliu Growth Phase II Equity Investment Partnership (Limited Partnership) (蘇州清流成長二期股權投資合夥企業(有限合夥)), Ningbo Meishan Bonded Port District Qinghan Equity Investment Fund Partnership (Limited Partnership) (寧波梅山保稅港區清晗股權投資基金合夥企業(有限合夥)), Tianjin Zhiqu Enterprise Management Consulting Partnership (General Partnership) (天津知秋企業管理諮詢合夥企業(普通合夥)), Chen Wei (陳威), Huang Jin (黃今), Bai Jie (柏潔), Zhang Xiaofang (張瀟方), Wang Xiwen (王希文), Tianjin Wuer Jiqu Enterprise Management Consulting Limited Partnership (天津五貳極趣企業管理諮詢合夥企業(有限合夥)), and Tianjin Tangdi Zhihua Management Consulting Partnership Enterprise (Limited Partnership) (天津棠棣之華管理諮詢合夥企業(有限合夥)), pursuant to which shareholders’ rights were agreed among the aforementioned parties; and

(c) [REDACTED].

2. Intellectual Property Rights

(a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Class	Registered Owner	Place of Registration	Registration Number	Date of Expiry
1.		28	Our Company	PRC	17144487	2026/08/20
2.		28	Our Company	PRC	32822075	2029/04/20
3.		28	Our Company	PRC	37413420	2029/11/27
4.		35	Our Company	PRC	43966993	2030/11/27
5.		28	Our Company	PRC	43966995	2030/12/06
6.		35	Our Company	PRC	47286292	2031/02/13
7.		35	Our Company	PRC	47303330	2031/02/13
8.		35	Our Company	PRC	47287844	2031/03/06
9.		28	Our Company	PRC	49649258	2031/05/06
10.		28	Our Company	PRC	54031665	2031/09/27
11.		28	Our Company	PRC	49646896	2032/03/13
12.		28	Our Company	PRC	60745685	2032/06/13
13.		28	Our Company	PRC	61500053	2032/06/13
14.		41	Our Company	PRC	59783856	2032/07/20

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No.	Trademark	Class	Registered Owner	Place of Registration	Registration Number	Date of Expiry
15.		28	Our Company	PRC	59663195	2032/07/20
16.		28	Our Company	PRC	51950091	2033/02/20
17.		28	Our Company	PRC	59648936	2033/04/20
18.		35	Our Company	PRC	59672670	2033/04/20
19.		41	Our Company	PRC	59645228	2033/04/20
20.		28	Our Company	PRC	61480311	2033/06/20
21.		35	Our Company	PRC	51946374	2033/06/20
22.		28	Our Company	PRC	63201193	2033/07/06
23.		28	Our Company	PRC	72655571A	2034/02/06
24.		9	Our Company	PRC	72814913A	2034/03/20
25.		28	Our Company	PRC	72655571	2034/08/13
26.		28	Our Company	PRC	69837673	2035/02/06
27.		42	Our Company	PRC	73758504	2035/03/06
28.		28.35.42	Our Company	Philippines	42020502484	2030/09/25
29.		28.35.42	Our Company	Japan	6364584	2031/03/17
30.		28.35.42	Our Company	Australia	2077383	2030/03/23
31.		28.35.42	Our Company	England	UK00918213993	2030/03/23
32.		28.35.42	Our Company	European Union	018213993	2030/03/23
33.		28.35.42	Our Company	Singapore	40202006694Q	2030/03/27
34.		28.35.42	Our Company	Malaysia	TM2020005945	2030/03/24
35.		28	Our Company	European Union	019112623	2034/11/28
36.		28	Our Company	European Union	019112543	2034/11/28
37.		28	Our Company	Hong Kong	306739651	2034/11/27
38.		28	Our Company	United States	7431425	2029/07/02

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(b) Patents

As of the Latest Practicable Date, we had registered the following patents which we consider to be or may be material to our business:

<u>No.</u>	<u>Patent</u>	<u>Type</u>	<u>Registered Owner</u>	<u>Place of Registration</u>	<u>Patent Number</u>	<u>Date of Registration</u>
1.	Toy (BeastBox Series: Ferocious Beasts Box) 玩具(猛獸匣-BeastBox系列)	Design Patent	Our Company	PRC	ZL201630320325.8	January 4, 2017
2.	Doll (Kimmy) 玩偶 (kimmy)	Design Patent	Our Company	PRC	ZL201930176507.6	October 18, 2019
3.	Doll (Fortune Astronaut) 玩偶 (招財宇航員)	Design Patent	Our Company	PRC	ZL201830755339.1	January 21, 2020
4.	Toy (Plank Pose: Tang Dynasty Court Lady) 玩具 (平板支撐-唐宮仕女)	Design Patent	Our Company	PRC	ZL201930356358.1	May 8, 2020
5.	Toy (Cultural Relics Reimagined: Yoga Lady 1) 玩具 (文物超活化之瑜伽仕女1)	Design Patent	Our Company	PRC	ZL201930356715.4	May 19, 2020
6.	Toy (Dio) 玩具 (Dio 狄奧)	Design Patent	Our Company	PRC	ZL202030155421.8	July 31, 2020
7.	Doll (Peach QiQi) 玩偶 (皮奇奇)	Design Patent	Our Company	PRC	ZL202030155405.9	August 25, 2020
8.	Toy (Dian Jiang Chun Ancient Style Blind Box 001) 玩具 (點絳脣古風系列盲盒001)	Design Patent	Our Company	PRC	ZL202130271222.8	August 13, 2021

APPENDIX VI STATUTORY AND GENERAL INFORMATION

<u>No.</u>	<u>Patent</u>	<u>Type</u>	<u>Registered Owner</u>	<u>Place of Registration</u>	<u>Patent Number</u>	<u>Date of Registration</u>
9.	Toy (Lilith) 玩具 (lilith 莉莉絲)	Design Patent	Our Company	PRC	ZL202130265865.1	August 31, 2021
10.	Toy (Capybara and Wombat Daily Series: Capybara Backpack) 玩具 (水豚和袋熊日常系列-水豚背包)	Design Patent	Our Company	PRC	ZL202130686530.7	February 15, 2022
11.	Toy (Lightning Fantasy Series: Monster 1) 玩具 (閃電奇舞系列怪人1)	Design Patent	Our Company	PRC	ZL202030572133.2	October 28, 2022
12.	Folding Toy (BeastBox – Flamingo) 折疊玩具 (猛獸匣—火烈鳥)	Design Patent	Our Company	PRC	ZL202230541815.6	January 17, 2023
13.	Folding Toy (Box Guest Driver) 折疊玩具 (匣中客駕駛員)	Design Patent	Our Company	PRC	ZL202330282821.9	November 3, 2023

(c) Copyrights

As of the Latest Practicable Date, we had registered the following copyrights which we consider to be or may be material to our business:

<u>No.</u>	<u>Copyright</u>	<u>Registered Owner</u>	<u>Type</u>	<u>Copyright Number</u>	<u>Date of Registration</u>
1.	Fortune Astronaut (招財宇航員-1)	Our Company	Artwork	國作登字-2019-F-00722292	February 11, 2019
2.	Cartoon Bronze Beast Series –Red Phoenix Bird (卡通青銅獸系列-紅色鳳鳥)	Our Company	Artwork	國作登字- 2019-F-00884742	September 18, 2019

APPENDIX VI STATUTORY AND GENERAL INFORMATION

No.	Copyright	Registered Owner	Type	Copyright Number	Date of Registration
3.	Kimmy & Miki Animal Series: Second Edition (Kimmy&Miki 動物系列第二彈)	Our Company	Artwork	國作登字-2020-F-01067915	July 20, 2020
4.	Sleep: Forest Spirit (Sleep 森之精靈)	Our Company	Artwork	國作登字-2021-F-00171728	July 28, 2021
5.	Panda Roll Daily Series: Second Edition (Panda Roll 日常系列第二彈)	Our Company	Artwork	國作登字-2021-F-00226921	September 29, 2021
6.	“Reimagined” Lady Office Series 1 (“超活化”仕女辦公室系列1)	Our Company	Artwork	黔作登字-2022-F-00458827	June 1, 2022
7.	KIMMY & MIKI Outing Series (KIMMY&MIKI 郊遊系列)	Our Company	Artwork	國作登字-2022-F-10114553	June 8, 2022
8.	Que Shi Le Series –Strange Hands (鵲拾樂系列-奇奇怪手)	Our Company	Artwork	黔作登字-2023-F-00979616	December 28, 2023
9.	Peachy QiQi LOOK Series – Energetic Captain (皮奇奇LOOK 系列-元氣隊長)	Our Company	Artwork	蘇作登字-2023-F-00023204	January 29, 2023
10.	NOOK: Secondhand Books (NOOK 中古書)	Our Company	Artwork	蘇作登字-2024-F-00220085	August 16, 2024
11.	BeastBox Series Feng (Roller Coaster Wind) –Box Form (猛獸匣系列過山風-box 形態)	Our Company	Artwork	魯作登字-2025-F-00012697	January 21, 2025
12.	BeastBox Series Feng (Roller Coaster Wind) – Animal Form (猛獸匣系列過山風-動物形態)	Our Company	Artwork	魯作登字-2025-F-00012698	January 21, 2025

(d) Domain names

As of the Latest Practicable Date, our Group had registered the following domain names which we consider to be or may be material to our business:

No.	Domain name	Registered Owner	Date of Registration	Date of Expiry
1.	dreamfair.com	Our Company	2003-08-17	2030-08-17
2.	beastbox.cn	Our Company	2025-03-24	2027-03-24
3.	52toys.com	Our Company	2001-11-30	2029-11-30
4.	beastbox.com.cn	Our Company	2025-03-24	2027-03-24
5.	52toys.asia	Our Company	2024-01-23	2030-01-23

C. FURTHER INFORMATION ABOUT DIRECTORS, SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) Directors, Supervisors and the chief executive of our Company

Save as disclosed in the section headed “Substantial Shareholders” in this document, immediately following the completion of the [REDACTED] and conversion of Unlisted Shares into H Shares, so far as our Directors are aware, none of our Directors, Supervisors or chief executive of our Company as any

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interests or short positions in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, under section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules (the “Model Code”), to be notified to our Company and the Stock Exchange once the H Shares are listed.

(b) *Substantial Shareholders*

For the information on the persons who will, immediately following 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 Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying voting rights in all circumstances at general meetings of our Company, see “Substantial Shareholders.”

As of the Latest Practicable Date, so far as our Directors are aware, the following persons (other than our Directors, Supervisors or chief executive of our Company) were interested 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 other members of our Group:

	<u>Name of Member of our Group</u>	<u>Name of Shareholder</u>	<u>Percentage of Shareholding</u>
1	Zhiwu Shengyuan (Huzhou) Trading Co., Ltd. (致物盛源（湖州）商貿有限公司)	ART TOP (HONG KONG) LIMITED	45%
2	Xi'an Tiancheng Zhijia Cultural Development Co., Ltd. (西安天成智迦文化發展有限公司)	Shaanxi Ciyou Culture Development (Group) Co., Ltd. (陝西次優文化發展（集團）有限公司)	45%

2. Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we [have entered] into a contract with each of our Directors and Supervisors in respect of, among other things, compliance with the relevant laws and regulations, the Articles of Association and applicable provisions on arbitration.

Each of our Directors [has entered] into a service contract with our Company. The principal particulars of these service contracts comprise (a) a term of three years which is equivalent to the term of the Board; and (b) termination provisions in accordance with their respective terms. Our Directors may be re-appointed subject to Shareholders’ approval. The service contracts can be renewed pursuant to our Articles of Association and applicable rules.

Each of our Supervisors [has entered] into a contract with our Company. Each contract contains provisions relating to compliance with relevant laws and regulations, observation of our Articles of Association and resolution of disputes by means of arbitration.

Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors or Supervisors (other than contracts expiring or determinable by the employer within one year without any payment of compensation (other than statutory compensation)).

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3. Directors’ and Supervisors’ Remuneration

Save as disclosed in “Directors, Supervisors and Senior Management” and Note 13 to “Appendix I—Accountant’s Report” for the three financial years ended December 31, 2024, none of our Directors or Supervisors received other remunerations of benefits in kind from us.

4. Disclaimers

Save as disclosed in this document:

- (a). none of our Directors, Supervisors or any of the parties listed in “—E. Other Information—4. Qualification and Consents of Experts” of this Appendix is:
 - (i) interested in our promotion, or in any assets which, within the two years immediately preceding the date of this document, have been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company; or
 - (ii) materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to our business;
- (b). save in connection with the [REDACTED] and the [REDACTED], none of our Directors, Supervisors or any of the parties listed in “—E. Other Information—4. Qualification and Consents of Experts” of this Appendix:
 - (i) is interested legally or beneficially in any shares in any member of our Group; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group;
- (c). none of our Directors or Supervisors or their close associates or any shareholders of our Company who to the knowledge of our Directors owns more than 5% of our issued share capital has any interest in our top five customers or suppliers; and
- (d). none of our Directors or Supervisors is a director or employee of a company that has an interest in the share capital of our Company which, once the H Shares are listed on the Hong Kong Stock Exchange, would have to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO.

D. EMPLOYEE INCENTIVE SCHEME

The following is a summary of the principal terms of the Employee Incentive Scheme. The Employee Incentive Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as it does not involve any grant of share options or awards or any issuance of new Shares by our Company after Listing and no further grant will be made after the Listing. Given the Shares under the Employee Incentive Scheme have already been issued to the Employee Ownership Platform and the participant as of the Latest Practicable Date, there will not be any dilutive effect to the issued Shares as a result of the operation of the Employee Incentive Scheme.

(a). *Purposes*

The purpose of the Employee Incentive Scheme is to fully encourage the motivation of the Group’s management team and key employees, promote the unity and stability of the core team.

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(b). Eligible Participants

The eligible participants of our Employee Incentive Scheme are members of management and other key employees of our Group.

(c). Administration

Mr. Chen is responsible for the execution of the Employee Incentive Scheme, including but not limited to determining the eligible participants of the Employee Incentive Scheme (the “Participants”) and the quantity of grant, establishment of the Employee Ownership Platform and other specific matters.

(d). Shares under the Employee Incentive Scheme

Pursuant to the Employee Incentive Scheme, as of the Latest Practicable Date, (i) Mr. Chen directly held 258,529 Shares, representing approximately 0.52% of the total issued Shares, (ii) Ms. Zhang Xiaofang, our chief financial officer, directly held 689,411 Shares, representing approximately 1.38% of the total issued Shares; and (iii) the rest of the Participants held the partnership interest of the Employee Ownership Platform which in turn held a total of 2,283,667 Shares, representing approximately 4.57% of the total issued Shares.

As of the Latest Practicable Date, the Employee Ownership Platform was held as to (i) approximately 0.02% by Tianjin Huhu Shengwei Culture Development Co., Ltd. (天津虎虎生威文化發展有限公司) as its general partner, which is wholly owned by Mr. Wang Yin (汪寅), the senior director of product department of the Company; (ii) approximately 25.47% by Mr. Chen as its limited partner; and (iii) approximately 74.52% by other ten limited partners, none of whom holds more than one third of the partnership interest therein or will constitute a connected person upon Listing.

E. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to impose on our Company or our subsidiary.

2. Litigation

Saved as disclosed in this document, to the knowledge of our Directors, no member of our Group has significant litigation or claims pending or threatened against any member of our Group.

3. Joint Sponsors

The Joint Sponsors satisfy the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors have made an application on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the H Shares to be converted from Unlisted Shares and the H Shares to be issued pursuant to the [REDACTED]. Each of the Joint Sponsors will receive a fee of US\$350,000 for acting as the sponsors for the Listing.

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4. Qualification and Consents of Experts

The qualifications of the experts who have given opinions or advice in this document are as follows:

<u>Name</u>	<u>Qualification</u>
Citigroup Global Markets Asia Limited	Licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) of the regulated activities under the SFO
Huatai Financial Holdings (Hong Kong) Limited	A licenced corporation under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 3 (leveraged foreign exchange trading), type 4 (advising on securities), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants Registered Public Interest Entity Auditor
Jingtian & Gongcheng	Legal advisers to our Company as to the PRC law
China Insights Industry Consultancy Limited	Independent industry consultant

Each of the experts has given and has not withdrawn its written consents to the issue of this document with the inclusion of its reports, letters, opinions or summaries of opinions (as the case may be) and the references to its names and logos included herein in the form and context in which it is respectively included.

Save as disclosed in this document, as of the Latest Practicable Date, none of the experts named above has any of our shareholding interests in any member of our Group or rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities in any member of our Group.

5. Compliance Advisor

Our Company has appointed Somerley Capital Limited as its Compliance Advisor in compliance with Rule 3A.19 of the Listing Rules.

6. Taxation of Holders of H Shares

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.10% on the higher of the consideration for or the market value of the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of any Hong Kong securities, including H Shares (in other words, a total of 0.20% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed stamp duty of HK\$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If no stamp duty is paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

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7. Binding Effect

This document shall have the effect, if any application is made pursuant hereto, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

8. 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 (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

9. Promoters

The promoters of our Company comprised all of the 24 then shareholders of our Company as of June 15, 2022 before our conversion into a joint stock company with limited liability. Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or benefits have been paid, allotted or given, or are proposed to be paid, allotted or given to the promoters named above in connection with the [REDACTED] or the related transactions described in this document.

10. Preliminary Expenses

Our Company did not incur any material preliminary expenses.

11. No Material Adverse Change

Our Directors confirm that, as of the date of this document, there has been no material adverse change in our financial or trading position or prospects since December 31, 2024 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

12. Miscellaneous

- (a) within the two years immediately preceding the date of this document:
 - (i) save as disclosed in “History, Development and Corporate Structure” in this document, no share or loan capital of our Company or our subsidiary had been issued or agreed to be issued or proposed to be fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or our subsidiary is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) save as disclosed in “[REDACTED]” in this document, no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or our subsidiary; and
 - (iv) save as disclosed in “[REDACTED]” in this document, no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or our subsidiary;
- (b) there are no founder, management or deferred shares nor any debentures in our Company or our subsidiary;

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- (c) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document;
- (d) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (e) all necessary arrangements have been made to enable our H Shares to be admitted into CCASS for clearing and settlement;
- (f) our Company has no outstanding convertible debt securities or debentures;
- (g) there is no arrangement under which future dividends are waived or agreed to be waived, and there is no restriction affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong; and
- (h) none of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

APPENDIX VII

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND DOCUMENTS ON DISPLAY

A. DOCUMENTS DELIEVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) the written consents referred to in “Appendix VI—Statutory and General Information—E. Other Information—4. Qualification and Consents of Experts” in this document; and
- (b) a copy of each of the material contracts referred to in “Appendix VI—Statutory and General Information—B. Further Information about Our Business—1. Summary of Material Contracts” in this document.

B. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and our Company (www.52toys.com) up to and including the date which is 14 days from the date of this document:

- (a) the Articles of Association;
- (b) the Accountants’ Report from Deloitte Touche Tohmatsu, the text of which is set out in Appendix I in this document;
- (c) the report from Deloitte Touche Tohmatsu in respect of the unaudited *pro forma* financial information, the text of which is set out in Appendix II in this document;
- (d) the audited consolidated financial statements of our Group for the years ended December 31, 2022, 2023 and 2024;
- (e) the material contracts referred to in “Appendix VI—Statutory and General Information—B. Further Information about Our Business—1. Summary of Material Contracts” in this document;
- (f) the service agreements and letters of appointment entered into between our Company and each of our Directors and Supervisors (as applicable) referred to in “Appendix VI—Statutory and General Information—C. Further Information about Directors, Supervisors and Substantial Shareholders—2. Service Contracts” in this document;
- (g) the legal opinion issued by Jingtian & Gongcheng, our PRC Legal Advisors, in respect of certain general corporate matters and property interests in the PRC of the Group;
- (h) the written consents referred to in “Appendix VI—Statutory and General Information—E. Other Information—4. Qualification and Consents of Experts” in this document;
- (i) the PRC Company Law, the PRC Securities Law, the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies, together with their unofficial English translation; and
- (j) the industry report issued by CIC.