

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this Document were extracted from different official government publications, available sources from public market research and other sources from independent suppliers. In addition, we engaged Frost & Sullivan in preparing the Frost & Sullivan Report, an independent industry report in respect of the [REDACTED]. We believe that the sources of the information in this section and other sections of this Document are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information from official and non-official sources has not been independently verified by us, the [REDACTED], Joint Sponsors, [REDACTED], [REDACTED], any of the [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy. Accordingly, the information from official and non-official sources contained herein may not be accurate and should not be unduly relied upon. Our Directors confirm that, after making reasonable enquiries, there is no adverse change in the market information since the date of the Frost & Sullivan Report that would qualify, contradict or have a material impact on the information in this section.

SOURCES OF INDUSTRY INFORMATION

We commissioned Frost & Sullivan, an independent market research consulting firm which is principally engaged in the provision of market research consultancy services, to conduct a detailed analysis of the PRC pop toy market. During the preparation of the Frost & Sullivan Report, Frost & Sullivan performed both primary and secondary research, and obtained knowledge, statistics, information and industry insights on the industry trends of the PRC pop toy market. Primary research involved discussing the status of the industry with leading industry participants and industry experts. Secondary research involved reviewing annual reports of companies, independent research reports and Frost & Sullivan's proprietary database. The Frost & Sullivan Report was compiled based on the following assumptions: (1) China's social, economic and political environment is likely to remain stable in the forecast period; and (2) the related industry key drivers are likely to drive the market in the forecast period. As part of the preparation of the Frost & Sullivan Report, we also commissioned Frost & Sullivan to conduct street interceptions and digital questionnaire and face to face interviews with 1,200 randomly selected participants in the PRC to better understand the product preferences and pop toy market from a consumer's perspective (the "**Survey**").

Frost & Sullivan is an independent global consulting firm, which was founded in New York in 1961. It offers industry research and market strategies, and provides growth consulting and corporate training. We have contracted to pay a fee of RMB600,000 to Frost & Sullivan in connection with the preparation of the Frost & Sullivan Report. We have extracted certain information from the Frost & Sullivan Report in this section, as well as in the sections headed "Summary," "Risk Factors," "Business," "Financial Information" and elsewhere in this document to provide our potential [REDACTED] with a more comprehensive presentation of the industry in which we operate.

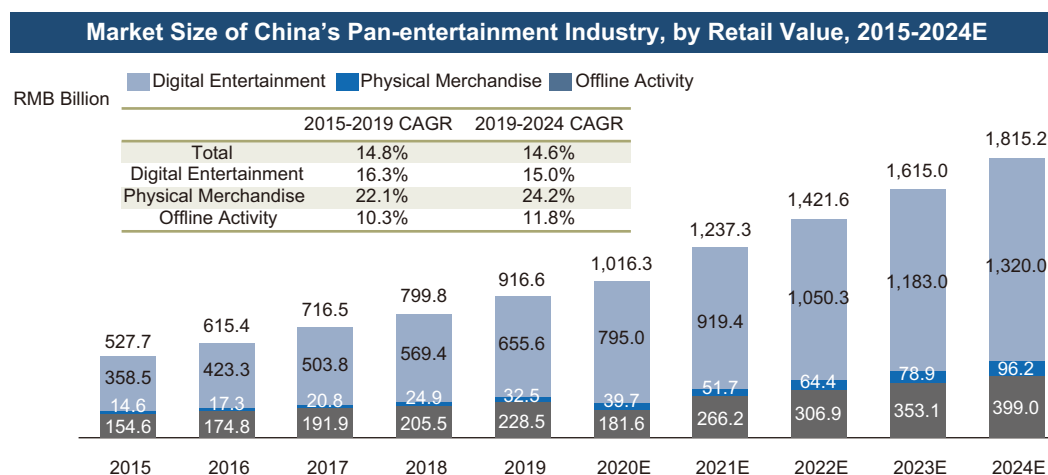
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OVERVIEW AND OUTLOOK OF CHINA'S PAN-ENTERTAINMENT MARKET

China's pan-entertainment market currently comprises three sectors: (i) digital entertainment, (ii) physical merchandise, including, among others, pop toys, and (iii) offline activity. According to the Frost & Sullivan Report, China's pan-entertainment market has enjoyed rapid expansion in recent years. The market size of China's pan-entertainment industry, as measured by retail value, grew from RMB527.7 billion in 2015 to RMB916.6 billion in 2019, representing a CAGR of 14.8%. Furthermore, China's pan-entertainment market still has tremendous potential for further growth. Driven by the rising disposable income and consumption willingness, increasing high-quality pop content and growing demands for pan-entertainment products and services, the market size of China's pan-entertainment industry is expected to further grow to RMB1,815.2 billion in 2024, representing a CAGR of 14.6% from 2019.

Pop culture, which encompasses a wide variety of things that people can be fans of, has become increasingly important in everyday life. Physical merchandises endorsed by pop culture or content serve as an accessible way for fans to express their affection and affinity for such culture and content. The physical merchandise sector has been the fastest growing sector under China's booming pan-entertainment industry, according to the Frost & Sullivan Report. The market size of the physical merchandise sector increased from RMB14.6 billion in 2015 to RMB32.5 billion in 2019, representing a CAGR of 22.1%, and is expected to further increase to RMB96.2 billion in 2024, representing a CAGR of 24.2% from 2019.

The following chart illustrates the historical and expected market size of China's pan-entertainment industry as measured by retail value:



Notes:

- (1) Digital entertainment primarily includes digital games, online films, online animations and live streaming.
- (2) Physical merchandise primarily includes pop toys and leisure books.
- (3) Offline activity primarily includes movies, internet café and theme parks.

Source: Frost & Sullivan

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POP TOY MARKET

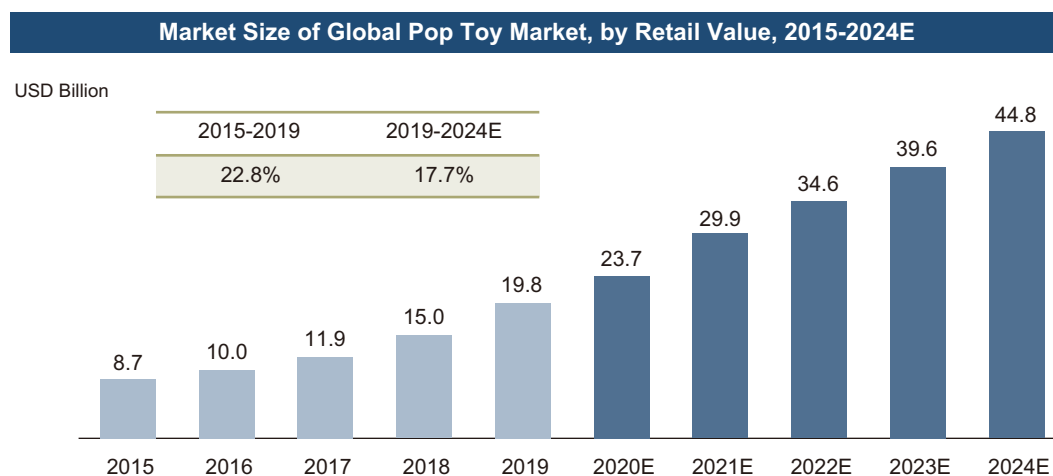
Overview

Pop toys refer to toys infused with pop culture and trendy content, serving as a subtle blend of the both. Unlike traditional toys, pop toys typically feature distinct designs and aesthetics, in many cases originating from licensed pop content, making it a good fit for display and collection beyond mere functional use. Pop toys cover a wide variety of product categories, including, among others, blind boxes, action figures, garage kits and adult-oriented assembled toys.

Pop toys are usually designed based on cultural and entertainment IPs, which can bring an immersive experience to customers around the original content and artwork. Pop toy IPs can be created by talented artists, or licensed from movies, animations, games or other sources of content. Cross-over collaboration among multiple IPs also plays a significant role in pop toy IP development. The popularity of IPs and widely-appealing design embedded in pop toys attract both adults and children, thus bringing satisfaction to collect and sometimes high value to resell, particularly for limited editions. Artists are able to express their feelings and attitudes in their work of pop toy products and pass on to fans. As an embodiment of contents and artistic expression, pop toys often establish a positive emotional connection with fans. According to the Survey, 53.3% of existing and potential customers regard creative styling as the main reason to buy or consider buying pop toys.

Global Pop Toy Retailing Market

According to the Frost & Sullivan Report, driven by the increase of disposable income, rapid growth of the pop culture industry, particularly the successful incubation of more high-quality IPs in the market, the market size of pop toy retailing globally increased from US\$8.7 billion in 2015 to US\$19.8 billion in 2019 at a CAGR of 22.8%, and is expected to reach US\$44.8 billion in 2024, representing a CAGR of 17.7% from 2019. The following chart illustrates the historical and expected market size of global pop toy market as measured by retail value:

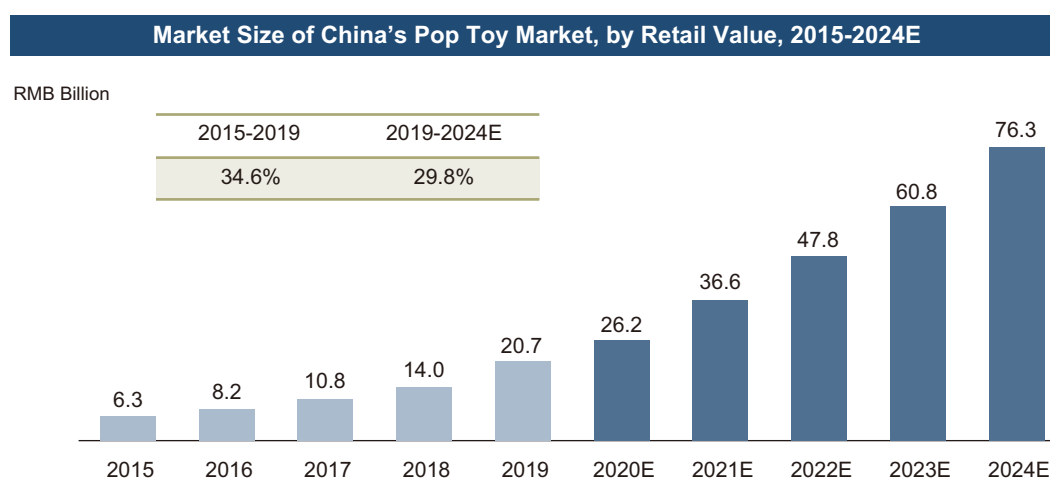


Source: Frost & Sullivan

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China's Pop Toy Retailing Market

China's pop toy retailing market is still at an early stage and has witnessed a rapid growth in the past few years, according to the Frost & Sullivan Report. The market size of pop toy retailing in China increased from RMB6.3 billion in 2015 to RMB20.7 billion in 2019, representing a CAGR of 34.6%. Driven by continuously increasing popularity of pop toys in China, the market size of pop toy retailing is expected to reach RMB76.3 billion in 2024, representing a CAGR of 29.8% from 2019. The following chart illustrates the historical and expected market size of China's pop toy market as measured by retail value:



Source: Frost & Sullivan

Pop Toy Fans in China

A young, well-educated and culturally proficient generation between the ages of 15 and 40 are the main target customers of the pop toy industry. Amid the fast-evolving Chinese society, the young generation has much more exposure to diverse cultures, modern lifestyles and rich information. They have shown a strong desire for self-expression and individuality, and are willing to channel their spending power towards emotional satisfaction. Pop toy fans are also enthusiastic to share their feelings and preferences through social media, as part of the communities of people with the same interests. According to the Survey, more than 95% of pop toy consumers are between the ages of 15 and 40, 63% of whom hold bachelor degrees or above.

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Overtime, many pop toy customers evolve from occasional buyers to regular purchasers, who are recognized as enthusiasts or fans. They demonstrate loyalty to pop toys through repeated purchases and can accept higher retail prices. According to the Survey, 68.5% of pop toy customers made more than one purchase in 2019, 19.8% among whom purchased more than five times; 68.9% of the pop toy customers made a purchase in the last six months preceding the Survey; and 27.6% of the pop toy customers are willing to pay more than RMB500 for a pop toy they like.

Key Growth Drivers of China's Pop Toy Retailing Market

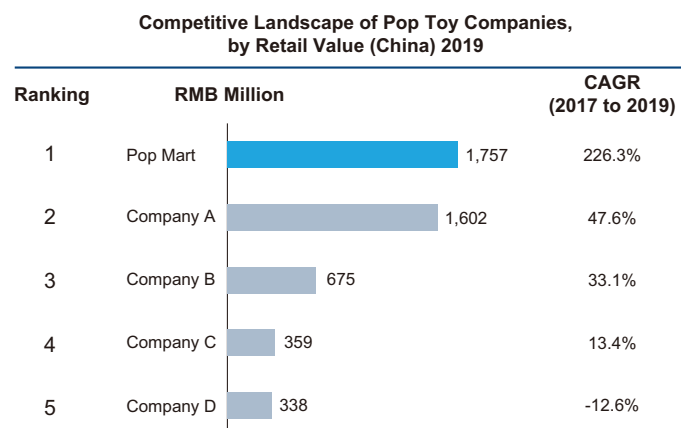
According to the Frost & Sullivan Report, the key growth drivers of China's pop toy retailing market include:

- ***Dedicated and Growing Fan Base.*** Pop toys are infused with pop culture content well-known among consumers. With stylish design and aesthetic value, pop toys can be owned for display, collection or exchange. Pop toys often offer a sense of joy and companionship that bring consumers relief and comfort, and fans can express their unique lifestyle and social standing by purchasing different pop toys. With an expanding and dedicated fan base, China's pop toy retailing are experiencing rapid growth.
- ***From Niche to the Mainstream.*** In the past, the pop toy market was featured as a niche market due to limited cultural acceptance, awareness and high price. In recent years, amid the backdrop of encouraging diversity and personality, people around the world become more open and passionate about various forms of previously-niche pop culture. In the meantime, social media facilitates such trend as people increasingly engage with the content and their social communities to show affinity for such content. In addition, product design, such as the "blind box," and industry players' expanding distribution networks make pop toys more desirable, affordable and accessible to fans, further bringing the pop toy market into the mainstream.
- ***Increasing Release of Blockbuster IPs.*** In line with the development of China's pan-entertainment market, increasing number of blockbuster IPs have been released and promoted, which in turn leads to higher demand for pop toys developed based on such blockbuster IPs. High-quality content and IPs also create opportunities for cross-over collaborations to attract more fans.
- ***Growing Disposable Income and Consumption Power.*** The cumulative effect of decades of rising disposable income and living standards has resulted in seismic changes in general consumption patterns in China. Chinese consumers are pursuing a more sophisticated lifestyle and are increasingly focused on the quality of goods and the emotional satisfaction they bring, which increases purchases of pop toys.

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Competitive Landscape of China's Pop Toy Retailing Market

In 2019, the top five market players had market shares of 8.5%, 7.7%, 3.3%, 1.7% and 1.6%, respectively, in China's pop toy retailing market in terms of retail value. Top market players other than Pop Mart are primarily multinational toy production companies focusing on IP development and licensing. The following chart sets forth the top five pop toy retailing market players in China in terms of retail value in 2019:



Source: Frost & Sullivan

Pop Mart is the largest pop toy brand in China in terms of retail value in 2019 with a market share of 8.5%, and has experienced rapid growth with a CAGR of 226.3% from 2017 to 2019, outpacing all other major players. During Tmall's 2019 Singles Day shopping festival, Pop Mart ranked first among flagship stores of toy brands on Tmall in terms of retail value. Among the top players in China's pop toy industry, Pop Mart is the only one with an integrated platform covering the industry chain, including IP operation, OEM production, consumer access and pop toy culture promotion.

Entry Barriers of China's Pop Toy Retailing Market

According to the Frost & Sullivan Report, the entry barriers of China's pop toy retailing market include:

- Leading Pop Content Resources.** Pop toy companies need to regularly launch new and distinct products to capture ever-evolving consumer demand. Therefore, the ability to capture high-quality pop content, which is often limited, is crucial to success. Leveraging extensive industry connections, established distribution channels and strong IP development and operation capabilities, leading market players are better positioned to secure best-in-class pop content and enjoy stronger bargaining power in the process.

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- ***Strong IP Development and Operating Capabilities.*** A successful pop toy company shall serve as the nexus between content providers and retail consumers. On the one hand, it is able to identify or incubate outstanding artists and high-quality pop content, for which a solid database and fan base would be a prerequisite. On the other hand, it needs to accurately understand and anticipate consumers' preference, and is capable of tailoring the original IPs coupled with optimal pricing and marketing strategy for commercialization.
- ***Omni-channel Network with Operation Excellence.*** As sales channels become increasingly fragmented, pop toy companies need to establish omni-channel sales and distribution network at scale and ensure efficient supply chain management, while taking full consideration of product features, consumer needs and coordination with business partners to deliver a consistent, smooth and joyful shopping experience.
- ***Highly Recognized Brand Name.*** Reputable brand image is critical in attracting consumers and business partners. Establishing a brand name and executing effective promotion require solid track record, consumer insights and marketing investments.

MONETIZATION OPPORTUNITIES OF POP TOY IP

Pop toy retailing currently is the primary way of monetization for pop toy IPs. As leading pop toy IPs gain significant popularity among fans, licensing and adaptation provides additional monetization opportunities to extend the value of pop toy IPs into a wide range of fields, such as licensed merchandise (other than toys), advertisements, video games, movies, comic books, etc.

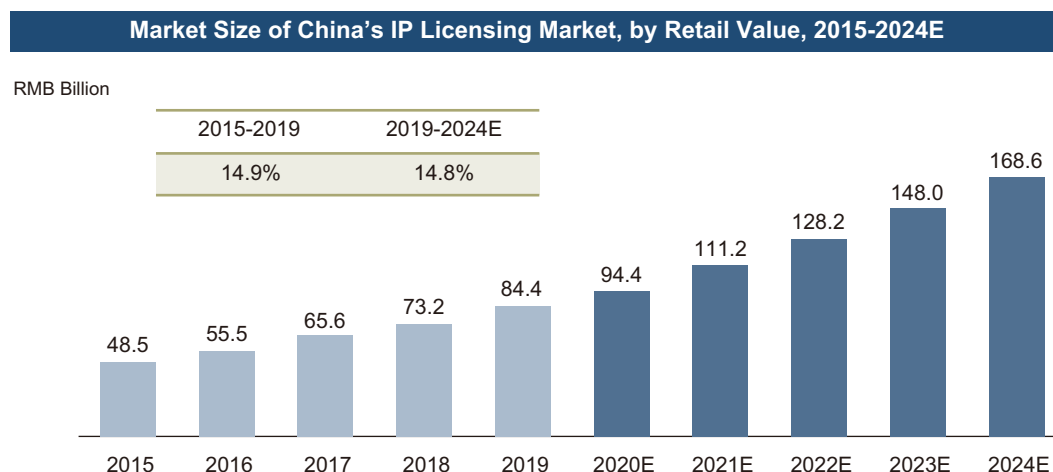
Successful IPs have significant commercial value extended well beyond their original formats. The market value of the top three IPs globally, as measured by cumulative business value, was US\$95.0 billion, US\$86.0 billion and US\$76.0 billion, respectively, in 2019, according to the Frost & Sullivan Report. These IPs were initially launched in 1996, 1974 and 1924, respectively.

IP Licensing

IP licensing primarily consists of two categories, merchandise licensing and space licensing. Merchandise licensing refers to the arrangements where IP owners allow licensees to develop and sell branded products based on popular IPs, usually for a specific period of time. Space licensing refers to using IP and related concepts to conduct themed events or space decoration, such as conventions, exhibitions, themed stores and theme parks, with the purpose of providing immersive experiences as well as to sell IP-related products.

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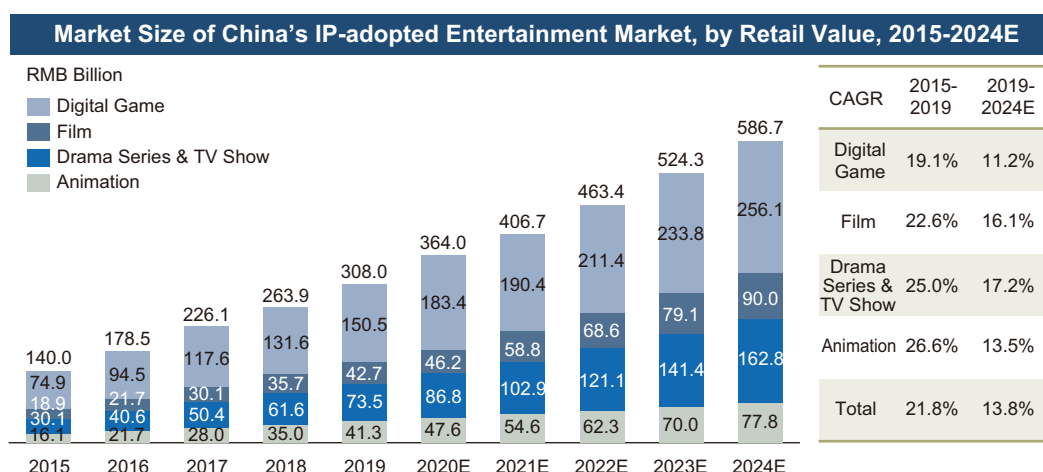
According to the Frost & Sullivan Report, IP licensing industry has huge growth opportunities in China. Driven by a continuous growing demands, the market size of China's IP licensing industry is expected to reach RMB168.6 billion by 2024, representing a CAGR of 14.8% from 2019. The following chart illustrates the historical and expected market size of China's IP licensing market as measured by retail value:



Source: Frost & Sullivan

IP Adaptation into Entertainment Content

Pop toy IP operators may authorize other companies to adapt their IPs to be commercially used in digital games, films, drama series and television shows, and animations. In terms of revenue, the IP-adapted entertainment market in China has increased by a CAGR of 21.8% from 2015 to 2019, reaching RMB308.0 billion in 2019, and is expected to reach RMB586.7 billion by 2024, representing a CAGR of 13.8% from 2019. The following chart illustrates the historical and expected market size of China's IP-adapted entertainment market as measured by revenue:



Source: Frost & Sullivan

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SURVEY

In December 2019, we commissioned Frost & Sullivan to conduct street interceptions and digital questionnaire and face to face interviews with 1,200 randomly selected participants in the PRC to better understand the product preferences and pop toy market from a consumer's perspective. Sets forth below the details of the survey conducted by Frost & Sullivan.¹

- *Consumer base.* More than 95% of pop toy consumers are between the ages of 15 and 40, 63% of whom hold bachelor degrees or above.
- *Purchasing power.* Over 45% of pop toy consumers spend over RMB500 on pop toys per year, 19.8% of whom purchased pop toys more than five times in 2019.
- *Fan community.* Almost half of the pop toy consumers are members of pop toy communities. Members events and promotional activities are the main reasons for the members to join the community.
- *Factors influencing buying decision.* Creative design is the most important factor the consumers consider when purchasing pop toys.
- *Retail channels.* E-commerce, offline stores and vending machines are the top three channels for purchasing pop toys.
- *Blind box.* Around 70% of pop toy consumers would purchase blind box toys three times or more for a specific toy design they want.

¹ The survey questions in relation to each survey result are set out as follows:

- *Consumer base.* What is your age, highest educational background?
- *Purchasing power.* (i) How much do you spend on pop toys each year? (ii) What is your frequency of buying pop toys every year for the past three years?
- *Fan community.* (i) Have you ever joined an pop toy community? (ii) What features attract you to join a pop toy community?
- *Factors influencing buying decision.* What are the major factors you consider when purchasing pop toys?
- *Retail channels.* Where do you usually purchase pop toys?
- *Blind box.* How many times would you repeatedly purchase a series of "blind box" toys for a specific toy design?
- *Brand recognition and store popularity.* (i) Which pop toy store brand have you heard of? (ii) Which pop toys store brand did you shop most frequently?
- *Product popularity.* What pop toys have you bought?

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- *Brand recognition and store popularity.* Pop Mart is one of the most well-known pop toy brands and one of the most popular pop toy stores among pop toy consumers in China.
- *Product popularity.* Molly is one of the most popular products among wide range of pop toy IPs on the market.

DIRECTORS' CONFIRMATION

As of the Latest Practicable Date, after taking reasonable care, our Directors confirm that to the best of their knowledge, there was no adverse change in the market information since the respective dates of the various data contained herein, which may qualify, contradict or have an impact on the information in this section.