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Application Proof of

POP MART

POP MART INTERNATIONAL GROUP LIMITED

(the “Company”)

(Incorporated in the Cayman Islands with limited liability)

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POP MART

POP MART INTERNATIONAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under the : [REDACTED] Shares (subject to the
[REDACTED]: [REDACTED]
Number of [REDACTED]: : [REDACTED] Shares (subject to
reallocation)
Number of [REDACTED]: : [REDACTED] Shares (subject to
reallocation and the [REDACTED])
[REDACTED]: : [REDACTED] per [REDACTED] plus
brokerage of 1%, SFC transaction levy of
0.0027% and Stock Exchange trading fee
of 0.005% (payable in full on application
in Hong Kong dollars, subject to refund)
Nominal value: : US\$0.0001 per Share
[REDACTED]: : [REDACTED]

Joint Sponsors

Morgan Stanley



[REDACTED]

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The [REDACTED] is expected to be determined by agreement between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company on the [REDACTED]. The [REDACTED] is expected to be on or around [REDACTED] and, in any event, not later than [REDACTED].

The [REDACTED] will be not more than [REDACTED] and is currently expected to be not less than [REDACTED] unless otherwise announced. If, for any reason, the [REDACTED] is not agreed by [REDACTED] between the [REDACTED] (for itself and on behalf of the [REDACTED]) and our Company, the [REDACTED] will not proceed and will lapse.

The [REDACTED] (on behalf of the [REDACTED]) may, with our consent, reduce the number of [REDACTED] being [REDACTED] under the [REDACTED] and/or the indicative [REDACTED] below that stated in this Document at any time on or prior to the morning of the last day for lodging applications under the [REDACTED]. In such a case, an announcement will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.popmart.com not later than the morning of the day which is the last day for lodging applications under the [REDACTED]. For further information, please refer to the sections headed "Structure of the [REDACTED]" and "How to apply for [REDACTED]" in this Document.

The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] (on behalf of the [REDACTED]) if certain grounds arise prior to 8:00 a.m. on the [REDACTED]. See the section headed "[REDACTED]" in this Document.

Prior to making an [REDACTED] decision, prospective [REDACTED] should consider carefully all of the information set out in this Document, including the risk factors set out in the section headed "Risk Factors" in this Document.

The [REDACTED] have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be [REDACTED], [REDACTED], pledged, or transferred within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The [REDACTED] are being [REDACTED] and [REDACTED] (i) solely to QIBs as defined in Rule 144A pursuant to an exemption from registration under the U.S. Securities Act and (ii) outside the United States in offshore transactions in accordance with Regulation S.

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

CONTENTS

IMPORTANT NOTICE TO PROSPECTIVE [REDACTED]

This Document is issued by us solely in connection with the [REDACTED] and the [REDACTED] and does not constitute an [REDACTED] to sell or a solicitation of an [REDACTED] to buy any security other than the [REDACTED] by this Document pursuant to the [REDACTED]. This Document may not be used for the purpose of making, and does not constitute, an [REDACTED] or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a [REDACTED] of the [REDACTED] in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this Document in any jurisdiction other than Hong Kong. The distribution of this Document for purposes of a [REDACTED] and the [REDACTED] and sale of the [REDACTED] in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this Document and the [REDACTED] to make your [REDACTED] decision. The [REDACTED] is made solely on the basis of the information contained and the representations made in this Document. We have not authorised anyone to provide you with information that is different from what is contained in this Document. Any information or representation not contained nor made in this Document and the [REDACTED] must not be relied on by you as having been authorised by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], any of the [REDACTED], any of our or their respective directors, officers, employees, agents, or representatives of any of them or any other parties involved in the [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 the entire document before you decide to [REDACTED] in the [REDACTED].

There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set out in the section headed "Risk Factors" in this Document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

Various expressions used in this section are defined in the sections headed "Definitions" and "Glossary of Technical Terms" in this Document.

OUR MISSION

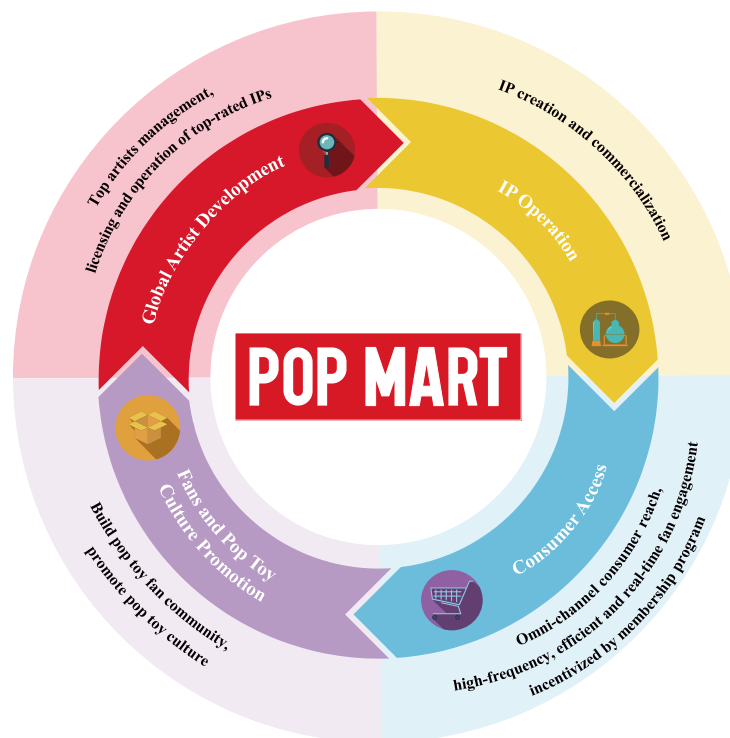
To light up passion and bring joy.

OUR VISION

To become a leading global pop culture entertainment company.

OUR COMPANY

We are the largest and fastest-growing pop toy company in China, in terms of revenue in 2019 and revenue growth from 2017 to 2019, respectively, according to the Frost & Sullivan Report. IP is at the core of our business. We have established an integrated platform covering the entire industry chain of pop toys, including artists development, IP operation, consumer access and pop toy culture promotion, through which we light up the passion of fans and bring them joy.



SUMMARY

As a pioneer and key promoter of pop toy culture in China, we have inspired people's passion for pop culture and pop toy, and led the rapid development and large-scale commercialization of pop toys in China. According to the Frost & Sullivan Report, "Pop Mart" has become the most popular pop toy brand in China. Leveraging our industry influence and resources, we have launched and hosted the largest pop toy convention in China in terms of visits according to the Frost & Sullivan Report. Through our membership program, online pop toy community, and various pop toy culture events hosted by us, we have formed a large and engaging fan community.

Leveraging our integrated platform and market leading position, we have attracted and maintained a pool of high-quality IP resources in the pop toy industry by working with our artists, established IP providers and our in-house design team. As of the Latest Practicable Date, we operated 85 IPs, including 12 proprietary IPs, 22 exclusive licensed IPs and 51 non-exclusive licensed IPs.

Our strong IP operation capabilities are essential to the successful commercialization of our IP pool and enable us to maintain a competitive advantage. We continuously create original, unique and entertaining pop toy products based on our IPs, which in turn promote their popularity and enhance their commercial value. Because of the wide popularity of our IPs, we are able to collaborate with well-known companies across various industries to explore additional monetization opportunities and to further promote our IPs.

We have established a comprehensive and extensive sales and distribution network to reach our consumers. As of December 31, 2019, our sales and distribution network consisted of (i) 114 retail stores in 33 cities in China, primarily located at major commercial districts in first-tier and second-tier cities; (ii) 825 innovative roboshops in 57 cities which help us expand our consumer access and provide engaging and playful shopping experiences for our fans; (iii) fast-growing online channels, including our Tmall flagship store, Pop Draw mini program, Paqu online pop toy community and other mainstream e-commerce platforms in China; (iv) our BTS and STS conventions; and (v) wholesale channels, primarily consist of 22 distributors in China and 19 distributors in 21 overseas countries and regions such as Korea, Japan, Singapore and the United States.

We are dedicated to promoting pop toy culture, which enhance our brand awareness, solidify our industry-leading position and strengthen our commercialization capabilities. We are relentless to attract and build a fast-growing, young and passionate fan base. We have also established a membership program with a variety of membership benefits to enhance the stickiness of our fan community and create privileged shopping experiences. As of December 31, 2019 and the Latest Practicable Date, we had a total of 2.2 million and 3.2 million registered members, respectively.

SUMMARY

Leveraging our integrated platform covering the entire industry chain of pop toys, our business achieved rapid growth during the Track Record Period. Our total revenue increased by 225.4% from RMB158.1 million in 2017 to RMB514.5 million in 2018, and further increased by 227.2% to RMB1,683.4 million in 2019. We recorded net profit of RMB1.6 million, RMB99.5 million and RMB451.1 million in 2017, 2018 and 2019, respectively.

OUR STRENGTHS

We believe the following strengths differentiate us from our competitors:

- Pioneer of pop toy culture in China;
- Strong IP creation and operation capabilities;
- Comprehensive and extensive consumer access through omni-channel sales and distribution network;
- Vibrant fan base with high stickiness;
- Best-positioned to capture market growth worldwide with global operation capabilities; and
- Visionary management team.

OUR STRATEGIES

In order to fulfil our mission, achieve our vision, and further consolidate our leading position, we propose to implement the following strategies:

- Further enhance artist development and IP creation and operation capabilities;
- Expand consumer access channels and overseas markets;
- Broaden product and service offerings;
- Attract cultivate and retain talents;
- Selectively pursue strategic alliances, acquisitions and investments.

SUMMARY

OUR IPs AND PRODUCT OFFERINGS

IP Pool

IP is at the core of our business. Leveraging our integrated platform and market leading position, we have attracted and maintained a pool of high quality IP resources in pop toy industry. As of the Latest Practicable Date, we operated 85 IPs, consisting of (i) proprietary IPs; (ii) exclusive licensed IPs; and (iii) non-exclusive licensed IPs. We develop a broad array of pop toy products based on our IPs. In addition to self-developed pop toy products, we also sell third-party products from selected third-party suppliers. The following table sets forth a breakdown of our revenue breakdown by product category for the periods indicated:

	Years ended December 31,					
	2017		2018		2019	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>					
Proprietary IPs						
Molly	41,019	25.9	213,893	41.6	456,018	27.1
Dimoo	–	–	–	–	100,085	5.9
BOBO&COCO	–	–	–	–	25,454	1.5
Yuki	–	–	746	0.1	23,076	1.4
Others	2	0.0	1,074	0.2	22,394	1.3
Subtotal	41,021	25.9	215,714	41.9	627,027	37.2
Exclusive licensed IPs						
PUCKY	–	–	75,075	14.6	315,318	18.7
The Monsters	–	–	–	–	107,846	6.4
SATYR RORY	–	–	6,893	1.3	63,086	3.7
Others	4,843	3.1	24,254	4.7	111,112	6.6
Subtotal	4,843	3.1	106,222	20.6	597,362	35.4
Non-exclusive licensed IPs	–	–	18,213	3.5	159,820	9.5
Total self-developed products	45,864	29.0	340,149	66.0	1,384,209	82.1
Third-party products	110,262	69.8	162,277	31.5	279,986	16.6
Others	1,948	1.2	12,085	2.5	19,239	1.3
Total	158,074	100.0	514,511	100.0	1,683,434	100.0

SUMMARY

For the purpose of presenting the breakdown of revenue from self-developed products by IP categories during the Track Record Period, the categorization of an IP is based on its status as of the Latest Practicable Date.

IP Operations

We are dedicated to improving the commercial value of our IPs and enhancing the brand awareness and monetization capabilities of our IPs. Our IP operational excellence, professional team and efficient management of the entire operation cycle are essential to the successful IP commercialization and enables us to maintain a competitive advantage.

Product Design and Development

We develop a broad array of original, unique and entertaining pop toy products based on our IPs, and our artistic and collectible products are able to attract grown-ups as well as young generations. Our self-developed pop toy products are primarily categorized into blind boxes, action figures, BJDs and accessories.

IP Licensing

Leveraging the wide popularity of our IPs, we collaborate with well-known companies across various industries to explore diversified monetization opportunities and to further promote our IPs. Specifically, we may license our proprietary IPs and sub-license our exclusive licensed IPs out to our partners to expand monetization opportunities.

IP Creation

Our IPs are created by our artists, established IP providers and our in-house design team. The artists we cooperate with are the primary creators of our IPs. We have also attracted and established solid licensing relationships with many renowned global IP providers. In addition, we also maintain an in-house creative design team consisting of 91 designers with rich experience in art and design-related industry.

SUMMARY

SALES AND DISTRIBUTION CHANNELS

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

	Years ended December 31,					
	2017		2018		2019	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>					
Retail stores	101,005	63.9	248,257	48.3	739,690	43.9
Online channels	14,854	9.4	102,886	20.0	539,201	32.0
Roboshops	5,568	3.5	86,431	16.8	248,554	14.8
Wholesale	29,884	18.9	51,329	9.9	110,467	6.6
– Distributors	27,759	17.6	44,972	8.7	93,601	5.6
– Bulk purchase	2,125	1.3	6,357	1.2	16,866	1.0
Conventions	6,763	4.3	25,608	5.0	45,522	2.7
Total revenue	158,074	100.0	514,511	100.0	1,683,434	100.0

OUR CUSTOMERS

Our customers primarily consist of our fans and distributors, and to a lesser extent, our bulk purchase corporate customers. We have a diversified customer base. In 2017, 2018 and 2019, total revenue generated from our five largest customers, which included our distributors and bulk purchase corporate customers, accounted for approximately 17.8%, 8.2% and 4.3% of our revenue, respectively, and total revenue generated from our largest customer accounted for approximately 16.6%, 6.9% and 3.3% of our revenue, respectively.

SALES AND MARKETING

We have a dedicated marketing team which is responsible for formulating and coordinating marketing activities and promotion campaigns. As of December 31, 2019, our marketing team consisted of 20 members who worked closely with other teams and/or our artists and IP providers to execute marketing strategies. In 2017, 2018 and 2019, our advertising and marketing expenses amounted to RMB2.6 million, RMB10.7 million and RMB46.8 million, respectively.

OUR SUPPLIERS

Currently, our suppliers primarily include selected third-party manufacturers in China. In 2017, 2018 and 2019, purchases from our five largest suppliers, which were manufacturers, accounted for approximately 43.8%, 41.3% and 40.8% of our total purchases, respectively, and purchases from our largest supplier accounted for approximately 19.7%, 18.8% and 15.0% of our total purchases, respectively.

SUMMARY

COMPETITION

The pop toy retailing market in China is fragmented and competitive. 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 by retail value, according to the Frost & Sullivan Report. Our competitors comprise both international and domestic brands. We compete on various factors, including brand recognition, fan base, product popularity and quality, price, effectiveness of marketing, and sales and distribution network in China, among others. According to the Frost & Sullivan Report, in 2019, we ranked the first in the pop toy retailing market in China with a market share of 8.5% measured by retail value. For more details, please see "Business — Competition."

SUMMARY FINANCIAL INFORMATION

The following tables summarize our consolidated financial results during the Track Record Period and should be read in conjunction with the section headed "Financial Information" of this Document and the accountant's report set out in Appendix I to this Document, together with the respective accompanying notes.

Summary of Consolidated Statements of Comprehensive Income

	Years ended December 31,					
	2017		2018		2019	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>					
Revenue	158,074	100.0	514,511	100.0	1,683,434	100.0
Cost of sales	(82,820)	(52.4)	(216,486)	(42.1)	(593,100)	(35.2)
Gross profit	75,254	47.6	298,025	57.9	1,090,334	64.8
Distribution and selling expenses	(51,047)	(32.3)	(125,721)	(24.4)	(348,533)	(20.7)
General and administrative expenses	(20,897)	(13.2)	(43,599)	(8.5)	(157,754)	(9.4)
Net impairment losses on financial assets	(344)	(0.2)	(270)	(0.1)	(3,086)	(0.2)
Other income	1,362	0.9	5,484	1.1	17,013	1.0
Other gains/(losses) – net	51	–	(305)	(0.1)	820	–

SUMMARY

	Years ended December 31,					
	2017		2018		2019	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>					
Operating profit	4,379	2.8	133,614	26.0	598,794	35.6
Finance income	9	–	142	–	424	–
Finance expenses	(1,764)	(1.1)	(2,455)	(0.5)	(5,813)	(0.3)
Finance expenses – net	(1,755)	(1.1)	(2,313)	(0.4)	(5,389)	(0.3)
Share of (loss)/profit of joint ventures for using the equity method	(351)	(0.2)	959	0.2	4,970	0.3
Profit before income tax	2,273	1.4	132,260	25.7	598,375	35.5
Income tax expense	(704)	(0.4)	(32,739)	(6.4)	(147,257)	(8.7)
Profit for the year	1,569	1.0	99,521	19.3	451,118	26.8

Summary of Consolidated Balance Sheets

	As of December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Total current assets	65,801	254,997	716,601
Total non-current assets	76,478	147,798	349,880
Total assets	142,279	402,795	1,066,481
Total current liabilities	44,019	144,874	381,570
Total non-current liabilities	19,436	39,091	92,130
Total liabilities	63,455	183,965	473,700
Total equity	78,824	218,830	592,781
Total equity and liabilities	142,279	402,795	1,066,481

SUMMARY

Summary of Consolidated Statements of Cash Flows

	Years ended December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Net cash generated from operating activities	15,507	175,000	502,889
Net cash used in investing activities	(8,884)	(100,510)	(118,267)
Net cash generated from/(used in) financing activities	<u>(17,602)</u>	<u>8,718</u>	<u>(155,584)</u>
Net increase/(decrease) in cash and cash equivalents	(10,979)	83,208	229,038
Cash and cash equivalents at the beginning of the year	<u>24,571</u>	<u>13,592</u>	<u>96,802</u>
Exchange gains/(loss) on cash and cash equivalents	<u>–</u>	<u>2</u>	<u>(1,226)</u>
Cash and cash equivalents at the end of the year	<u><u>13,592</u></u>	<u><u>96,802</u></u>	<u><u>324,614</u></u>

Non-IFRS Measure

To supplement our financial information which are presented in accordance with IFRS, we use adjusted net profit as an additional financial measure, which is not required by, or presented in accordance with IFRS. We believe that this non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance. We believe that this measure provides useful information to [REDACTED] and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted net profit may not be comparable to a similarly titled financial measure presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

SUMMARY

We define adjusted net profit as profit for the year adjusted for share-based payments compensation and [REDACTED] expenses. The following table sets out adjusted net profit, and a reconciliation from profit for the year to adjusted net profit for the periods indicated.

	Year ended December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Reconciliation of profit for the year to adjusted net profit			
Profit for the year	1,569	99,521	451,118
Adjusted for:			
Share-based payments compensation	102	782	1,467
[REDACTED] expenses	–	–	16,351
Adjusted net profit	1,671	100,303	468,936

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates or for the periods indicated.

	Years ended December 31,		
	2017	2018	2019
Revenue growth	–	225.4%	227.2%
Same store sales growth of retail stores ⁽¹⁾	–	59.6%	63.1%
Gross margin	47.6%	57.9%	64.8%
Net profit Margin	1.0%	19.3%	26.8%
Adjusted net profit margin	1.1%	19.5%	27.9%
Trade receivables turnover days ⁽²⁾	8 days	7 days	6 days
Trade payables turnover days ⁽³⁾	23 days	40 days	36 days
Inventory turnover days ⁽⁴⁾	49 days	45 days	46 days
	As of December 31,		
	2017	2018	2019
Current ratio ⁽⁵⁾	1.5	1.8	1.9
Return on assets ⁽⁶⁾	1.1%	24.7%	42.3%
Return on equity ⁽⁷⁾	2.0%	45.5%	76.1%

SUMMARY

Notes:

- (1) Revenue growth of our same retail stores as compared to the previous period. Same retail stores represent retail stores that commenced operations prior to the beginning of the previous period under comparison and remained open until after the end of the current period.
- (2) Trade receivables turnover days for a period are calculated using the average of open balance and closing balance of the trade receivables for such period divided by revenue for the relevant period and multiplied by 360 days.
- (3) Trade payables turnover days for a period are calculated using the average of open balance and closing balance of the trade payables for such period divided by cost of goods for the relevant period and multiplied by 360 days.
- (4) Inventory turnover days for a period are calculated using the average of open balance and closing balance of the inventories for such period divided by cost of goods for the relevant period and multiplied by 360 days.
- (5) Current ratio is calculated using total current assets divided by total current liabilities at the end of the year.
- (6) Return on assets is calculated using profit for the year divided by total assets at the end of the year, multiplied by 100%.
- (7) Return on equity is calculated using profit for the year divided by total equity at the end of the year, multiplied by 100%.

SUMMARY OF MATERIAL RISK FACTORS

Our business and the [REDACTED] involve certain risks, which are set out in the section headed "Risk Factors." You should read that section in its entirety carefully before you decide to [REDACTED] in our Shares. Some of the major risks we face are relating to:

- As a pop culture entertainment company, we cannot assure you that we will be able to design and develop products that will be popular with consumers, or that we will be able to maintain the popularity of successful products.
- We may not realize the full benefit of our licenses if the IPs we license have less market appeal than expected or if sales from the products that use those IPs are not sufficient to satisfy the minimum guaranteed royalties.
- We face various risks associated with our license agreements for IPs and our licensors which could adversely impact our business and results of operations.
- Our business depends significantly on market recognition of our "Pop Mart" brand, and any damage to our brand, trademarks or reputation, or failure to effectively promote our brand, could materially and adversely impact our business and results of operations.
- Our historical growth rate may not be indication of our further performance and our success depends on our ability to execute our business strategy.

SUMMARY

- If we are unable to obtain, maintain and protect our intellectual property rights, in particular trademarks and copyrights, or if our licensors are unable to maintain and protect their intellectual property rights that we use in connection with our products, our ability to compete could be negatively impacted.
- Our industry is highly competitive. If we are unable to compete effectively with existing or new competitors, our sales, market share and profitability could decline.
- We may fail to manage the growth of our retail store and roboshop network effectively.
- Our financial condition and results of operations may be materially and adversely affected by the recent coronavirus outbreak.
- We face a variety of risks associated with the manufacturing and operation of our roboshops, any of which could adversely affect our financial condition and results of operations.

RECENT DEVELOPMENTS

Save as disclosed in the section headed "Financial Information" and the accountant's report included in Appendix I to this Document, our Directors confirm that, as of the date of this Document, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since December 31, 2019, the end of the period reported on in the Accountant's Report set out in Appendix I to this document.

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. The PRC government has implemented strict measures to control such outbreak in China. The demand for pop toy products was negatively impacted during the COVID-19 outbreak, primarily because the mobility of consumers was restricted, the closures of stores, and the distribution capabilities of online sales channels were limited. According to the information currently available, our Directors are of the view that the COVID-19 outbreak would not have a material adverse effect on our results of operations in the twelve months ending December 31, 2020 and our long-term business development. For details, see "Financial Information — Recent Development — COVID-19 Outbreak and Effects on Our Business."

USE OF [REDACTED]

The aggregate net [REDACTED] that we expect to receive from the [REDACTED] (after deducting [REDACTED] and estimated expenses in connection with the [REDACTED] and assuming an [REDACTED] of [REDACTED] per Share, being the mid-point of the indicative range of the [REDACTED] of [REDACTED] to [REDACTED] per Share) will be approximately HK\$[REDACTED]. We will bear the [REDACTED], SFC transaction levy and Stock Exchange trading fee payable by us in connection with the issue of new Shares together with any applicable fees relating to the

SUMMARY

[REDACTED]. We intend to use the [REDACTED] we will receive from this [REDACTED] for the following purposes:

- approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the [REDACTED]) is expected to be used to finance part of our expansion plans of consumer access channels and overseas markets;
- approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the [REDACTED]) is expected to be used to fund our potential investments in, acquisitions of and strategic alliance with companies along the value chain of our industry;
- approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the [REDACTED]) is expected to be used to invest in technology initiatives to strengthen our marketing and fan engagement efforts, and to enhance the digitalization of our business;
- approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the [REDACTED]) is expected to be used to expand our IP pool; and
- the remaining amount of approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing approximately [REDACTED]% of the [REDACTED]) is expected to be used for working capital and general corporate purposes.

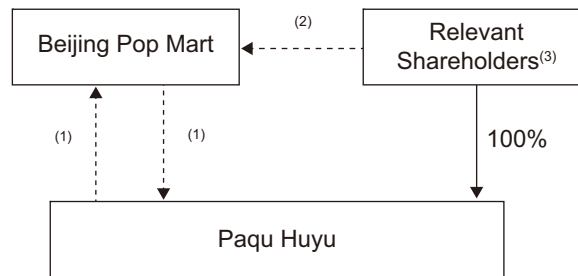
For further details, please see "Future Plans and Use of [REDACTED]."

CONTRACTUAL ARRANGEMENTS

We launched Paqu Huyu as a flagship platform to conduct online culture services and internet information services to our fans and community. The provision of such services are subject to foreign investment restrictions under the current PRC laws and regulations in relation to value-added telecommunication services and online culture services. In line with common practice in industries in China subject to foreign investment restrictions and prohibitions, we will gain effective control over, and receive all the economic benefits generated by the businesses currently operated by Paqu Huyu through the Contractual Arrangements between Beijing Pop Mart, on the one hand, and Paqu Huyu and its Relevant Shareholders, on the other hand. The Contractual Arrangements allow the results of operations, assets and liabilities and cash flow of Paqu Huyu to be consolidated into our financial statements under IFRS-10 as if it were our subsidiary. See the section headed "Contractual Arrangements" in this Document for further information.

SUMMARY

The following simplified diagram illustrates the flow of economic benefits from Paqu Huyu to our Group stipulated under the Contractual Arrangements after completion of the Reorganization:



"—" denotes legal and beneficial ownership in the equity interest

"....." denotes the Contractual Arrangements

- (1) Beijing Pop Mart provides software development and other technical consultation services in exchange for service fees from Paqu Huyu. See "Summary of the Contractual Arrangements — Exclusive Consultation and Service Agreement".
- (2) The Relevant Shareholders executed an exclusive option agreement in favour of Beijing Pop Mart, for the acquisition of 100% of the equity interests and/or assets in Paqu Huyu. See "Summary of the Contractual Arrangements — Exclusive Option Agreement".

The Relevant Shareholders pledged as first charge all of their respective equity interests in Paqu Huyu to Beijing Pop Mart as collateral security for any or all of their payments due to Beijing Pop Mart and to secure performance of their obligations under the Exclusive Consultation and Service Agreement, the Exclusive Option Agreement and the Voting Rights Proxy Agreement and Powers of Attorney. See "Summary of the Contractual Arrangements — Share Pledge Agreements".

The Relevant Shareholders executed the Voting Rights Proxy Agreement and Powers of Attorney in favour of Beijing Pop Mart, see "Summary of the Contractual Arrangements — Spouse Undertakings".

- (3) Mr. Wang, Mr. Song Quan, Ms. Zhang Lili, Mr. Wu Zhongfu, Mr. Zhao Jianyi, Ms. Zhou Lixia, Mr. Xiao Yang, Mr. Yang Xiaokuan, Mr. Mai Gang, Mr. Yang Jingbing, Ms. Li Shuangshuang, Mr. Wang Pei, Ms. Yu Chunxiao, Mr. Chen Hua, Ms. Yang Guifang, Ms. Ma Honghong, Mr. Yin Wei, Mr. Si De, Ms. Yang Tao, Mr. Zhou Lifeng, Mr. Cheng Fu, Mr. Zhang Chao, Mr. Wu Yi, Mr. Xing Zongyu, Mr. Yang Jigan, Ms. Yu Jing, Mr. Hu Jian, Mr. Cai Xiaodong, Mr. Xuan Yilang and Ms. Liu Ran are collectively referred to as the "Relevant Shareholders".

For the risks relating to the Contractual Arrangements, see sub-section headed "Risk Factors — Risks Relating to Our Contractual Arrangements" in this Document.

OUR CONTROLLING SHAREHOLDERS AND SHAREHOLDER INFORMATION

Mr. Wang, our founder and an executive Director, is able to exercise approximately [REDACTED]% voting rights in our Company immediately following completion of the [REDACTED] and assuming the [REDACTED] is not exercised, through (i) GWF Holding, a company with limited liability incorporated in the BVI, wholly-owned by UBS Trustees (B.V.I.) Ltd. and established by Mr. Wang for the benefit of himself holding [REDACTED]% of the total issued share capital of our Company, (ii) Pop Mart Hehuo Holding Limited, a company with limited liability incorporated in the BVI holding [REDACTED]% of the total issued share capital of our Company; and (iii) Tianjin Paqu Holding Limited, a company with limited liability

SUMMARY

incorporated in the BVI holding [REDACTED]% of the total issued share capital of our Company. Accordingly, Mr. Wang and GWF Holding are considered as the Controlling Shareholders of our Company under the Listing Rules. For details of the Controlling Shareholders, please refer to "Relationship with Our Controlling Shareholders" and "Substantial Shareholders".

We have also completed a series of [REDACTED] Investments from private equity funds and investment holding companies. For further details of the identity and background of the [REDACTED] Investors, see "History, Reorganization and Corporate Structure — [REDACTED] Investments — Information on the [REDACTED] Investors".

DIVIDEND POLICY

In 2019, Beijing Popmart declared a dividend of approximately RMB80.0 million to its shareholders. The Board, with the sanction of the Shareholders in general meeting, may direct any dividend be satisfied wholly or in part by the distribution of specific assets of any kind. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividends shall be declared or payable except out of our profits and reserves of our Company lawfully available for distribution including share premium. No dividend shall carry interest against our Company.

[REDACTED] EXPENSES

Based on the mid-point [REDACTED] of HK\$[REDACTED] (being the mid-point of our [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED]), the total [REDACTED] expenses (including [REDACTED]) payable by our Company are estimated to be approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), assuming the [REDACTED] is not exercised. These [REDACTED] expenses mainly comprise professional fees paid and payable to the professional parties, and [REDACTED] payable to the [REDACTED], for their services rendered in relation to the [REDACTED] and the [REDACTED].

As of December 31, 2019, we incurred RMB[REDACTED] of [REDACTED] expenses for the [REDACTED] of which RMB[REDACTED] was charged to our consolidated statements of comprehensive income and RMB[REDACTED] was capitalized as prepayment and will be accounted for as a deduction from our equity upon the [REDACTED]. We estimate that [REDACTED] expenses of approximately RMB[REDACTED] (including [REDACTED] of approximately RMB[REDACTED], assuming the [REDACTED] is not exercised and based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]) will be incurred by our Group, of which approximately RMB[REDACTED] is expected to be charged to our consolidated statement of comprehensive income and approximately RMB[REDACTED] is expected to be charged against equity upon the [REDACTED].

SUMMARY

[REDACTED]

DEFINITIONS

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

"%"	per cent
"affiliate"	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
	[REDACTED]
"Articles" or "Articles or Association"	the amended and restated articles of association of our Company conditionally adopted by the Shareholders of our Company by a special resolution passed on [●] 2020 with effect from the [REDACTED] , a summary of which is set out in the section headed "Summary of the Constitution of our Company and Cayman Companies Law" in Appendix III to this Document
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Audited Financial Statements"	the audited consolidated financial statements of our Group for the financial years ended December 31, 2017, 2018 and 2019 as included in the section headed "Accountants Report" in Appendix I to this Document
"Beijing Pop Mart"	Beijing Pop Mart Cultural & Creative Co., Ltd. (北京泡泡瑪特文化創意有限公司), a limited liability company established under the laws of the PRC on September 27, 2010 and our indirect wholly-owned subsidiary
"Board"	the board of directors of our Company
"BTS"	Beijing Toy Show, a pop toy convention hosted by our Company each year in Beijing since 2017

DEFINITIONS

“business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Capitalization Issue”	the issue of Shares on the [REDACTED] by way of the capitalization of certain sums standing to the credit of the share premium account of our Company to the holders of the Shares and the Preferred Shares whose names appear on the register of members of our Company at the close of business on the business day preceding the [REDACTED] in proportion to their then existing respective shareholdings
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Cayman Registrar”	the Registrar of Companies of the Cayman Islands
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“China” or “PRC”	the People’s Republic of China, except where the context requires otherwise and only for the purposes of this Document, excluding Hong Kong, Macau and Taiwan
“CLSA”	CLSA Capital Markets Limited

DEFINITIONS

“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	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
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Pop Mart International Group Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands on May 9, 2019
“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
“Contractual Arrangement(s)”	the series of contractual arrangements entered into by, among others, Beijing Pop Mart and Paqu Huyu, details of which are described in the section headed “Contractual Arrangements” in this Document
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Wang and GWF Holding. See the section headed “Relationship with Our Controlling Shareholders” in this Document
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of our Company
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the industry consultant

DEFINITIONS

"Frost & Sullivan Report"	a report prepared by Frost & Sullivan on the global pop toy industry
"GAAP"	generally accepted accounting principles
"GDP"	Gross Domestic Product
"GFA"	gross floor area
	[REDACTED]
"Governmental Authority"	any governmental, regulatory, or administrative commission, board, body, authority, or agency, or any stock exchange, self-regulatory organization, or other non-governmental regulatory authority, or any court, judicial body, tribunal, or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign, or supranational
	[REDACTED]
"Group", "our Group", "the Group", "we", "us", or "our"	our Company and its subsidiaries from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries and consolidated affiliated entities, such subsidiaries and consolidated affiliated entities as if they were subsidiaries and consolidated affiliated entities of our Company at the relevant time
"GWF Holding"	GWF Holding Limited, an exempted investment holding company with limited liability incorporated in the BVI on May 6, 2019, formerly known as Grant Wang Holding Limited and wholly-owned by UBS Trustees (B.V.I.) Ltd. as trustee for a trust established by Mr. Wang (as settlor) for his own benefit
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

DEFINITIONS

“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

“Hong Kong Takeovers Code” or “Takeovers Code”	Code on Takeovers and Mergers and Share Buy-back issued by the SFC, as amended, supplemented or otherwise modified from time to time
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[REDACTED]

DEFINITIONS

“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“ICB License”	Internet Cultural business License (網絡文化經營許可證)
“ICP License”	Value-added Telecommunications Services Operating Permit for Internet information services (增值電信業務經營許可證)
“ICP”	Internet content provider
“IFRS”	International Financial Reporting Standards, amendments, and interpretations, as issued from time to time by the International Accounting Standards Board
“Independent Third Party” or “Independent Third Parties”	any entity(ies) or person(s) who is not a connected person of our Company or an associate of any such person within the meaning ascribed thereto under the Listing Rules

[REDACTED]

DEFINITIONS

[REDACTED]

“Joint Sponsors”	Morgan Stanley Asia Limited and CLSA Capital Markets Limited
“Latest Practicable Date”	[May 22, 2020], being the latest practicable date for ascertaining certain information in this Document before its publication
“Laws”	all laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees, or rulings of any Governmental Authority (including, without limitation, the Stock Exchange and the SFC) of all relevant jurisdictions
“Listing Committee”	the Listing Committee of the Stock Exchange
	[REDACTED]
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

[REDACTED]

“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company conditionally adopted by the Shareholders of our Company by a special resolution passed on [REDACTED], with effect from the [REDACTED]
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Morgan Stanley”	Morgan Stanley Asia Limited
“Mr. Kenny Wong”	Mr. Wong Shun Ming, a Hong Kong artist who created Molly and an Independent Third Party
“Mr. Wang”	Mr. Wang Ning (王寧), Chairman of the Board, executive Director, Chief Executive Officer and a Controlling Shareholder of our Company
“Nanjing Golden Eagle Pop Mart”	Nanjing Golden Eagle Pop Mart Trading Co., Ltd. (南京金鷹泡泡瑪特商貿有限公司), a limited liability company established under the laws of the PRC on April 25, 2014 and a joint venture of our Company (with 52% equity interest) and Golden East International Retail Group (China) Co., Ltd. (金鷹國際商貿集團(中國)有限公司) (with 48% equity interest) which is an Independent Third Party
“NEEQ”	the National Equities Exchange and Quotations, a national securities trading market in the PRC for trading the shares of public companies that are not listed on either the Shenzhen or Shanghai stock exchange
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)

DEFINITIONS

"Nomination Committee" the nomination committee of the Board

[REDACTED]

"Paqu Huyu" Beijing Paquhuyu Technology Co., Ltd. (北京葩趣互娱科技有限公司), a limited liability company established under the laws of the PRC on February 17, 2016 and acquired by Mr. Wang on November 9, 2017. Paqu Huyu is controlled by our Company through the Contractual Arrangements, the details of which are set out in the section headed "Contractual Arrangements" in this Document

"PBOC" People's Bank of China

DEFINITIONS

"Paqu"	an online community mobile application launched by us for fans to access pop toy culture information and updates, trade pop toys and engage in social interaction with other fans alike
"Pop Draw"	a mini program launched by us, which fits the features of blind box and is embedded with interactive features that create playful and fun shopping experience
"Pop Mart (BVI) Holding Limited"	a limited liability company established under the laws of BVI on May 10, 2019 and a direct wholly-owned subsidiary of our Company
"Pop Mart (Hong Kong) Holding Limited"	a limited liability company established under the laws of Hong Kong on May 27, 2019 and an indirect wholly-owned subsidiary of Pop Mart (BVI) Holding Limited, a direct wholly-owned subsidiary of our Company
"[REDACTED] Share Award Scheme"	the [REDACTED] share award scheme adopted by our Company on [REDACTED], the principal terms of which are set out in the section headed "Appendix IV — Statutory and General Information" in this Document
"PRC Legal Adviser"	Jingtian & Gongcheng
"Preferred Shares"	the 4,275,028 Series A Preferred Shares of our Company
"[REDACTED] Investment(s)"	the investment(s) in our Company undertaken by the [REDACTED] Investors pursuant to the relevant note purchase agreements, share subscription agreements and share purchase agreements
"[REDACTED] Investors"	SCC GROWTH V HOLDCO F, LTD., GWF Holding, Pop Mart Hehuo Holding Limited, Sidsi Holding Limited, Justin Moon Holding Limited, Million Profit International Holdings Limited, LVC Amusement LP, Saturn Group Business Limited, Huaxing Growth Capital III, L.P., Lead Accomplish Limited, How2work Holding Limited and BA Capital Fund III, L.P.

DEFINITIONS

[REDACTED]

“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“Relevant Shareholders”	Mr. Wang, Mr. Song Quan (宋泉), Ms. Zhang Lili (張莉莉), Mr. Wu Zhongfu (吳忠福), Mr. Zhao Jianyi (趙建宜), Ms. Zhou Lixia (周麗霞), Mr. Xiaoyang (肖楊), Mr. Yang Xiaokuan (楊曉寬), Mr. Mai Gang (麥剛), Mr. Yang Jingbing (楊鏡冰), Ms. Li Shuangshuang (李雙雙), Mr. Wang Pei (王培), Ms. Yu Chunxiao (于春曉), Mr. Chen Hua (陳華), Ms. Yang Guifang (楊桂芳), Ms. Ma Honghong (馬紅紅), Mr. Yin Wei (尹巍), Mr. Si De (司德), Ms. Yang Tao (楊濤), Mr. Zhou Lifeng (周立峰), Mr. Cheng Fu (程富), Mr. Zhang Chao (張超), Mr. Wu Yi (吳毅), Mr. Xing Zongyu (邢宗宇), Mr. Yang Jigan (楊積敢), Ms. Yu Jing (于晶), Mr. Hu Jian (胡健), Mr. Cai Xiaodong (蔡曉東), Mr. Xuan Yilang (宣毅郎) and Ms. Liu Ran (劉冉)
“Remuneration Committee”	the remuneration committee of the Board
“Reorganization”	the reorganization arrangements undertaken by our Group in preparation for the [REDACTED], details of which are set out in the section headed “History, Reorganization and Corporate Structure — The Reorganization” in this Document
“RMB” or “Renminbi”	Renminbi, the lawful currency of China

DEFINITIONS

"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAMR"	State Administration for Market Regulation (中華人民共和國國家市場監督管理總局)
"Securities and Futures Ordinance" or "SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"SFC"	Securities and Futures Commission of Hong Kong
"Shareholder(s)"	holder(s) of our Share(s)
"Shareholders Agreement"	the shareholders agreement entered into between, among others, our Company, GWF Holding, Justin Moon Holding Limited, Sidsi Holding limited, Pop Mart Hehuo Holding Limited, Kenny Wong Holding limited and LVC Amusement LP dated January 31, 2020
"Shares"	ordinary share(s) in the share capital our Company, currently of nominal value US\$0.0001 each
	[REDACTED]
"State Council"	State Council of the PRC (中華人民共和國國務院)
"STS"	Shanghai Toy Show, a pop toy convention hosted by our Company each year in Shanghai since 2018
"subsidiary" or "subsidiaries"	has the meaning ascribed to it in section 15 of the Companies Ordinance
"substantial shareholder"	has the meaning ascribed to it in the Listing Rules
"the Hong Kong Stock Exchange" or "the Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Track Record Period"	the three financial years ended December 31, 2017, 2018 and 2019

DEFINITIONS

"U.S. Securities Act" United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

[REDACTED]

"United States", "U.S." or "US" United States of America, its territories, its possessions and all areas subject to its jurisdiction

"US dollars", "U.S. dollars" or "US\$" United States dollars, the lawful currency of the United States

"VAT" value-added tax

[REDACTED]

DEFINITIONS

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Capitalization Issue and the [REDACTED] assume that the [REDACTED] is not exercised.

The English names of the PRC entities, PRC laws or regulations, and the PRC governmental authorities referred to in this Document are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.

Certain amounts and percentage figures included in this Document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this Document in connection with our Company and our business.

These terms and their definitions may not correspond to any industry standard definitions, and may not be directly comparable to similarly titled terms adopted by other companies operating in the same industries as our Company.

“action figure”	poseable character dolls
“BJD”	ball-jointed doll, which is any doll that is articulated with ball and socket joints, featuring comparatively large heads and big eyes
“CAGR”	compound annual growth rate
“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
“IP”	refers to the design of a single or a series of characters and the underlying intellectual property rights
“IP provider”	a provider of IP, who licenses our Company to develop and sell pop toys in connection with such IP
“mould”	a hollowed-out block that is filled with a liquid or pliable material. The liquid hardens or sets inside the mould, adopting its shape
“repeat purchase rate”	the percentage of registered members who purchased our products two or more times during a period
“same store sales growth of retail stores”	revenue growth of our same retail stores as compared to the previous period. Same retail stores represent retail stores that commenced operations prior to the beginning of the previous period under comparison and remained open until after the end of the current period.
“Tmall”	“Tmall” 天貓, a website for business-to-consumer online retail in China

FORWARD-LOOKING STATEMENTS

Certain statements in this Document are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events or performance (often, but not always, through the use of words or phrases such as "will", "expect", "anticipate", "estimate", "believe", "going forward", "ought to", "may", "seek", "should", "intend", "plan", "projection", "could", "vision", "goals", "aim", "aspire", "objective", "target", "schedules", and "outlook") are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this Document), uncertainties and other factors some of which are beyond our Company's control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our future business development, financial condition and results of operations;
- our business strategies and plans to achieve these strategies;
- our ability to identify and satisfy user demands and preferences;
- our ability to maintain good relationships with business partners;
- general economic, political and business conditions in the industries and markets in which we operate;
- relevant government policies and regulations relating to our industry, business and corporate structure;
- the actions and developments of our competitors; and
- all other risks and uncertainties described in the section in this headed "Risk Factors" in this Document.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated or projected, as well as from historical results. Specifically but without limitation, sales could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realized.

FORWARD-LOOKING STATEMENTS

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution **[REDACTED]** against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as of the date of this Document. Any such intentions may change in light of future developments.

All forward-looking statements in this Document are expressly qualified by reference to this cautionary statement.

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An [REDACTED] in our [REDACTED] involves significant risks. You should carefully consider all of the information in this Document, including the risks and uncertainties described below, before making an [REDACTED] in our [REDACTED]. 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 [REDACTED] could decline, and you may lose all or part of your [REDACTED].

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

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

As a pop culture entertainment company, we cannot assure you that we will be able to design and develop products that will be popular with consumers, or that we will be able to maintain the popularity of successful products.

The interests of consumers evolve extremely quickly and can change dramatically from time to time. To be successful, we must anticipate both the IPs and the products that will appeal to consumers and quickly develop and introduce products that can compete successfully for consumers' limited time, attention and spending. Evolving consumer tastes and shifting interests, coupled with an ever changing and expanding pipeline of consumer products and content that compete for consumers' interest and acceptance, create an environment in which some products and content can fail to achieve consumer acceptance, while others can be popular during a certain period of time but then be rapidly replaced. As a result, consumer products, particularly those based on pop culture such as ours, can have relatively short life cycles. In addition, given the growing market for digital products and the increasingly digital nature of pop culture, there is also a risk that consumer demand for physical products may decrease over time. Consumer demand for pop culture products can and does shift rapidly and without warning. Even if our product offerings are initially successful, there can be no guarantee that we will be able to maintain their popularity with consumers. Accordingly, our success will depend, in part, on our ability to continually create and introduce new products that consumers find appealing. To the extent that we are unable to do so, our sales and profitability will be adversely affected. If we devote time and resources to developing and marketing products that consumers do not find appealing enough to meet our sales targets or at all, our sales and profits may decline and our business performance may be damaged.

During Track Record Period, we generated a significant portion of revenue from Molly. The sale of our self-developed pop toy products based on Molly accounted for approximately 26.3%, 42.6% and 27.4% of our total revenue in 2017, 2018 and 2019, respectively. Therefore, Molly is critical to our sales performance. We are not in the position to assure that the popularity and market acceptance of Molly could be

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maintained at its prevailing level or at all. Accordingly, we cannot give assurance that going forward the amount of revenue generated from sales of pop toy products based on Molly can be sustained. If Molly erodes or fails to maintain its current appeal to consumers, there is no guarantee that we could develop or identify comparable IPs as replacements, or that sales of toys under such new IPs will be sufficient to make up for the reduction in sales of pop toy products based on Molly. Any reduction in the sales of pop toy products based on Molly could therefore adversely affect our revenues and operating results.

Additionally, as our overseas expansion progresses, we face a more diverse customer base in markets around the world with different tastes and preferences. As such, our success depends on our ability to successfully predict and adapt to changing consumer tastes and preferences in multiple markets and geographies and to design products that can achieve popularity globally over a broad and diverse consumer audience. There is no guarantee that we will be able to successfully develop and market products with global appeal.

We may not realize the full benefit of our licenses if the IPs we license have less market appeal than expected or if sales from the products that use those IPs are not sufficient to satisfy the minimum guaranteed royalties.

We seek to fulfill consumer preferences and interests by designing and selling certain products based on IPs owned by third parties and licensed to us. The popularity of the IPs we are granted license can significantly affect our sales and profitability. If we produce products based on a particular content release such as a movie, TV show or video game, the success of such content has a critical impact on the level of consumer interest in the associated products we are offering. The timing of the development and release, and the ultimate consumer interest in and success of, such content depends on the efforts of these third parties, as well as conditions in the media and entertainment industry generally. If the performance of one or more of such IPs failed to meet expectations or if there was a shift in consumer tastes away from such IPs generally, our results of operations could be adversely affected. In addition, competition in our industry for access to licensed IPs can challenge our ability to secure, maintain, and renew our existing licenses on commercially reasonable terms, if at all.

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 minimum guaranteed royalties that we consider to be too high to be profitable, which may result in losing 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.

We face various risks associated with our license agreements for IPs and our licensors which could adversely affect our business and results of operations.

A portion of our products are developed under license agreements which grant us the right to use certain intellectual property. These license agreements typically have

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terms of one to four years, some are not automatically renewable, and give the licensor the right to terminate the license agreement due to certain reasons like material breach or nonperformance of such license agreements. We may not be able to renew any or some of the existing license agreements. Under our license agreements, typically we and our licensors, include our artists and IP providers, jointly own the intellectual property rights in the products we design and sell under the license, and as a result, upon termination of the license, we would no longer have the right to sell these products without our licensors' approval. We believe our ability to retain our license agreements depends, in large part, on our relationships with our licensors. Any events or developments adversely affecting those relationships could adversely affect our ability to maintain and renew our license agreements on similar terms or at all. The termination or lack of renewal of one or more of our license agreements, or the renewal of a license agreement on less favorable terms, could have a material adverse effect on our business, financial condition and results of operations. While we may enter into additional license agreements in the future, the terms of such license agreements may be less favorable than the terms of our existing license agreements.

If we breach any obligations set forth in any of our license agreements, we could be subject to monetary penalties and our rights under such license agreements could be terminated, either of which could have a material adverse effect on our business, financial condition and results of operations.

Our success is also partially dependent on the reputation of our licensors and their IPs, and the ability of our licensors to protect and maintain the intellectual property rights that we use in connection with our products, all of which may be harmed by factors outside our control, including unfavorable publicity or negative news regarding us, our artists or our IP providers that could adversely affect our reputation and our results of operations. See also “— If we are unable to obtain, maintain and protect our intellectual property rights, in particular trademarks and copyrights, or if our licensors are unable to maintain and protect their intellectual property rights that we use in connection with our products, our ability to compete could be negatively affected.”

Our business depends significantly on market recognition of our “Pop Mart” brand, and any damage to our brand, trademarks or reputation, or failure to effectively promote our brand, could materially and adversely affect our business and results of operations.

Brand image is a key factor in consumer purchase decisions. We believe that our success depends substantially on the popularity of our “Pop Mart” brand and our reputation for popular and high-quality pop toy products. Therefore, maintaining and enhancing the recognition and image of our brand is critical to our ability to differentiate our products and to compete effectively. Any actual or perceived contamination, spoilage or other product misbranding or tampering may lead to the erosion of our brand and damage to our brand value, regardless of its merits.

We have invested significant resources in our high quality and popular products throughout our sales and distribution network. Our brand also depends on our ability to respond to competitive pressures. If we fail to do so, the value of our brand or reputation may be diminished and our business and results of operations may be

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materially and adversely affected. Furthermore, as we continue to grow in size, expand our product offerings and extend our geographic reach, maintaining product quality and consistency may be more difficult and we cannot assure you that we can maintain our customers' confidence in our brand name. If consumers perceive or experience a reduction in the quality of our products or service, or consider in any way that we fail to deliver a consistently high quality products, our brand value could suffer, which could have a material and adverse effect on our business. In addition, any negative publicity or disputes regarding our products, services, or our Group or our management could also materially harm our brand image.

We consider our trademarks and brand name to be material to our business. If we are unable to adequately protect these intellectual property rights, we may lose these rights, our brand image may be harmed, and our competitive position and business may suffer. See "— If we are unable to obtain, maintain and protect our intellectual property rights, in particular trademarks and copyrights, or if our licensors are unable to maintain and protect their intellectual property rights that we use in connection with our products, our ability to compete could be negatively affected." below.

Our historical growth rate may not be indication of our further performance and our success depends on our ability to execute our business strategy.

Our sales and profitability have grown rapidly in recent periods. However, such growth should not be considered indicative of our future performance. Our future growth, profitability and cash flows depend upon our ability to successfully execute our business strategy, which is dependent upon a number of factors, including our ability to:

- anticipate, gauge and respond to rapidly changing consumer preferences and pop culture trends;
- explore, attract and cooperate with artists and global IP providers;
- develop or acquire new IPs;
- expand our market presence in existing sales channels and enter additional sales channels;
- continue to increase the productivity of our existing employees and to hire, train and manage new employees as needed without compromising our corporate culture;
- improve our product development, supply chain, financial and management controls and our reporting processes and procedures, and implement more extensive and integrated financial and business information systems;
- expand our geographic presence to take advantage of opportunities outside of China;
- enhance and maintain favorable brand recognition for our Company and product offerings;

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- enhance and maintain our business relationships with e-commerce platforms;
- build and maintain our premium and passionate fan community through marketing efforts;
- maintain and expand margins through sales growth and efficiency initiatives;
- effectively manage our relationships with third-party manufacturers;
- effectively manage our debt, working capital and capital investments to maintain and improve the generation of cash flow; and
- execute any acquisitions quickly and efficiently and integrate businesses successfully.

There can be no assurance that we can successfully execute our business strategy in the manner or time period that we expect. Further, achieving these objectives will require investments which may result in short-term costs without generating any current sales or countervailing cost savings and, therefore, may be dilutive to our earnings, at least in the short term. In addition, we may decide to divest or discontinue certain products or streamline operations and incur other costs or special charges in doing so. We may also decide to discontinue certain programs or sales to certain distributors based on anticipated strategic benefits. The failure to realize the anticipated benefits from our business strategy could have a material adverse effect on our prospects, business, financial condition and results of operations.

If we are unable to obtain, maintain and protect our intellectual property rights, in particular trademarks and copyrights, or if our licensors are unable to maintain and protect their intellectual property rights that we use in connection with our products, our ability to compete could be negatively 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 license. Although certain of our intellectual property is registered in the PRC, Hong Kong and several of the foreign countries in which we operate, there can be no assurances with respect to the rights associated with such intellectual property in those countries, including our ability to register, use, maintain or defend key trademarks and copyrights. To the extent possible, we rely on trademark, trade dress, copyright, patents 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

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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 have in the past and could in the future bring infringement, invalidity or similar claims with respect to any of our current trademarks and copyrights and other intellectual properties, or any trademarks or copyrights or other intellectual properties we may seek to obtain in the future. Any such 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 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.

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Our industry is highly competitive. If we are unable to compete effectively with existing or new competitors, our sales, market share and profitability could decline.

Our industry is, and will continue to be, highly competitive. We primarily compete with pop toy companies. We also compete with numerous smaller domestic and foreign collectible product designers and manufacturers. Our competitors may have significantly more financial, technical, marketing and other resources than we have, and may devote greater resources to develop, promote and support their products. In addition, they may have more extensive industry relationships, longer operating histories and greater brand recognition than we have. As a result, these competitors may respond more quickly to consumer tastes and trends, seeking ideas which will appeal to consumers and introducing new products that compete with our products for consumer acceptance and purchase new technologies, regulatory requirements and consumer demand.

In addition to existing competitors, the increasing use of digital technology, social media and the internet to spark consumer interest has further increased the ability for new participants to enter our markets, and has broadened the array of companies we compete with. New participants can gain access to consumers and become a significant source of competition for our products in a very short period of time.

Additionally, our collaborations with IP providers are generally non-exclusive, and they may work with our competitors and/or new participants in the market. They may reserve the rights to manufacture, distribute and sell similar products to those we design and sell under our license agreements, which could directly compete with our products.

We may fail to manage the growth of our retail store and roboshop network effectively.

As we primarily market and sell our products through our retail store and roboshop network, our growth largely depends on our ability to increase the number of these stores and to maintain and enhance their performance. We have continuously expanded our retail store and roboshop network in the Track Record Period. As of December 31, 2017, 2018 and 2019, the number of our retail stores was 32, 63 and 114, respectively. As of December 31, 2017 and 2018 and 2019, the number of our roboshops was 43, 260 and 825, respectively. In 2017, 2018 and 2019, the revenue contributed by our retail stores was RMB101.0 million, RMB248.3 million and RMB739.7 million, respectively, accounting for approximately 63.9%, 48.3% and 43.9% of our total revenue in the same periods, respectively. In 2017, 2018 and 2019, the revenue contributed by our roboshops was RMB5.6 million, RMB86.4 million and RMB248.6 million, respectively, accounting for approximately 3.5%, 16.8% and 14.8% of our total revenue in the same periods, respectively.

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Delays or failures in opening new retail stores and roboshops could materially and adversely affect our growth strategy and our expected results. There are a number of factors which could affect our ability to open new retail stores and roboshops. These factors could also affect the ability of the newly opened stores to achieve sales and profitability levels comparable with our existing retail stores and roboshops or to become profitable at all. These factors include:

- our ability to identify suitable locations and leases for our retail stores and roboshops. There is no assurance that we will be able to identify such suitable locations or lease such properties on terms commercially acceptable to us or, upon the expiration of a lease, that we will be able to renew the lease on acceptable terms. We may also face competition for new store locations in our target markets and thus incur higher lease costs;
- our ability to negotiate acceptable rental terms for those retail stores and roboshops. As we lease the premises for all of our retail stores and roboshops, we have significant exposure to the retail rental market in China;
- our ability to maintain relationship with third party suppliers related to our roboshops. We depend on third party suppliers to manufacture our roboshops and to provide technical support and maintenance. If we are unable to maintain our relationship with our suppliers, such suppliers cease to manufacture the roboshops, or such suppliers are unable to effectively deliver our orders on timelines and at the price we have negotiated, or we are unable to contract with alternative suppliers, we may not be able to manufacture new roboshops or continue to operate existing roboshops and our financial condition and operating results may be adversely affected;
- our ability to maintain an efficient and cost-effective operation (including adequate management and financial resources);
- our ability to effectively compete with other stores selling pop toys;
- our ability to hire, train and retain skilled personnel, and to effectively manage our staff costs and expenses; and
- our ability to maintain a sufficient level of inventory to meet the needs of customers.

Our ability to manage future growth will depend on our ability to continue to implement and improve operational, financial and management information systems on a timely basis and to expand, train, motivate and manage our workforce. We cannot assure you that our personnel, procedures, system and controls will be effectively managed to support its future growth. If we fail to manage its growth effectively, our financial condition and results of operation could be adversely affected.

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Our financial condition and results of operations may be materially and adversely affected by the outbreak of COVID-19.

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. According to the National Bureau of Statistics, China's total retail sales of consumer goods decreased by 19.0% in the first quarter of 2020 compared with the same period of 2019. The PRC government has implemented strict measures to control such outbreak in China. The demand for pop toy products was negatively impacted during the COVID-19 outbreak, primarily because the mobility of consumers was restricted, the closures of stores, and the distribution capabilities of online sales channels were limited. Based on the information currently available, our Directors are of the view that the COVID-19 outbreak would not have a material adverse effect on our results of operations in the 12 months ending December 31, 2020 and our long-term business development. For details, see "Financial Information — Recent Development — COVID-19 Outbreak and Effects on Our Business." However, the extent to which the COVID-19 outbreak affects our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 outbreak and the actions to contain the COVID-19 outbreak or treat its impact, among others.

We face a variety of risks associated with the operation of our roboshops, any of which could adversely affect our financial condition and results of operations.

We launched our roboshops in 2017. In 2017, 2018 and 2019, our revenue derived from roboshops was RMB5.6 million, RMB86.4 million and RMB248.6 million, respectively, representing approximately 3.5%, 16.8% and 14.8% of our total revenue in the same periods, respectively. We are required to obtain approvals, permits and licenses from state regulators and local municipalities to operate our roboshops. We may face delays in obtaining the requisite approvals, permits and licenses to set up and operate our roboshops or we may not be able to obtain them at all. If we encounter delays in obtaining or cannot obtain the requisite approvals, permits and licenses to construct and operate our roboshops in desirable locations, our financial condition and results of operations may be adversely affected.

Additionally, we may be required to incur significant maintenance and other expenses to keep them operating properly. If we are required to incur significant expenses to maintain our roboshops our financial condition and operating results may be adversely affected.

Use of social media may materially and adversely affect our reputation.

We rely to a large extent on our online presence to reach new consumers and use third-party social media platforms as marketing tools. As e-commerce and social media platforms continue to rapidly evolve, we must continue to maintain a presence on these platforms and establish presences on new or emerging popular social media platforms. If we are unable to cost-effectively use social media platforms as marketing tools, our ability to acquire new consumers and our financial condition may suffer. We receive a high degree of media coverage. Unfavorable publicity or negative news

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regarding us, our artists or our IP providers could adversely affect our reputation and our results of operations. Furthermore, our Paqu platform is open to the public for posting user-generated content. We may fail to detect and prevent illegal or inappropriate content from being posted, which may incur regulatory investigations, liability or even removal from application store.

Our success depends on our ability to operate our business without infringing, misappropriating or otherwise violating the trademarks, copyrights and proprietary rights of other parties.

Our commercial success depends at least in part on our ability to operate without infringing, misappropriating or otherwise violating the trademarks, copyrights and other proprietary rights of others. However, we cannot be certain that the conduct of our business does not and will not infringe, misappropriate or otherwise violate such rights. Many companies have employed intellectual property litigation as a way to gain a competitive advantage, and to the extent that we gain greater visibility and market exposure as a public company, we may also face a greater risk of being the subject of such litigation. For these and other reasons, third parties may allege that our products or activities, infringe, misappropriate or otherwise violate their trademark, copyright or other proprietary rights. Defending against allegations and litigation could be expensive, take significant time, divert management's attention from other business concerns, and delay getting our products to market. In addition, if we are found to be infringing, misappropriating or otherwise violating third-party trademark, copyright or other proprietary rights, we may be required to pay substantial damages or be subject to a court order prohibiting us from selling certain products or engaging in certain activities, or even worse the confiscation or destruction of certain products and its revenue, the revocation of business license, or the imposition of certain administrative penalties or the criminal liabilities. Any claims of violating others' intellectual property, even those without merit, could damage our reputation and harm our brand image. Additionally, our use of the disputed intellectual properties may be limited, which may significantly impact our operations. If any of the above occurs, it may result in a material adverse effect on our business, financial condition and results of operations.

We face potential liability, expenses for legal claims and harm to our business based on the nature of our convention business.

We host the largest pop toy conventions in China in terms of visits according to the Frost & Sullivan Report, namely BTS and STS, which have attracted hundreds of artists and pop toy brand owners across the world. For more details, see "Business — Fans and Pop Toy Culture Promotion — Conventions." In 2017, 2018 and 2019, the revenue generated from our BTS and STS conventions was RMB6.8 million, RMB25.6 million and RMB45.5 million, respectively, representing approximately 4.3%, 5.0% and 2.7% of our total revenue in the same periods, respectively.

We are subject to laws, regulations and other obligations relating to our conventions. We may incur significant expenses to comply with the applicable laws and regulations. We are required to obtain approvals, permits and files with respect to the conventions or activities from governmental authorities of public security and commerce at multiple levels, and we may face delays or obstacles in obtaining the requisite approvals, permits and files to host such conventions or activities. Once we

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encounter delays in obtaining or failure to obtain the requisite approvals, permits and files to host such conventions or activities, our sales, and results of operations may be adversely affected. In addition, we also face potential liability and expenses for legal claims relating to the convention business, including potential claims related to event injuries allegedly caused by us, creators, service providers, partners or unrelated third parties. For example, third parties could assert legal claims against us in connection with personal injuries related to occurrences at a convention or other event. Even if our personnel are not involved in these occurrences, we may face legal claims and still incur substantial expenses to resolve such claims.

We partly rely on our distributors to place our products into the market and we may not be able to control our distributors.

To complement our self-operated sales network, we also engage distributors to sell our products. As of December 31, 2019, our distribution network, consisting of 22 distributors in China and 19 overseas distributors covering 21 overseas countries and regions. In 2017, 2018 and 2019, sales to our distributors were RMB27.7 million, RMB44.9 million and RMB93.6 million, respectively, accounting for approximately 17.5%, 8.7% and 5.6% of our total revenue in the same periods, respectively. The performance of our distributors is subject to a number of factors and risks, some of which may be out of our control. Any one of the following events could cause fluctuations or declines in our revenue and could have an adverse effect on our financial conditions and results of operations:

- reduction, delay or cancellation of orders from one or more of our distributors;
- selection or increased sales of our competitors' products by our distributors;
- failure to renew distribution agreements and maintain relationships with our existing distributors;
- failure to establish relationships with new distributors on favorable terms; and
- inability to timely identify and appoint new distributors upon the loss of our existing distributors.

We may not be able to compete successfully against some of our current or future competitors during sales and marketing campaigns, especially if these competitors provide their distributors with more favorable arrangements. We may fail to maintain some or all of our favorable arrangements with certain distributors or to renew distributorship agreements with our distributors. In addition, we may not be able to successfully manage our distributors, and the cost of any consolidation or further expansion of our distribution and sales network may exceed the revenue generated from these efforts. There can be no assurance that we will be successful in detecting any non-compliance of our distributors with the provisions of their distribution agreements. Non-compliance by our distributors could negatively affect our brand reputation and disrupt our sales. Furthermore, if the sales volumes of our products

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sold to consumers are not maintained at a satisfactory level or if our distribution orders fail to track consumer demand, our distributors may not place any new orders from us, decrease the quantity of their regular orders or ask for a discounted price. In addition, most of our distributors sell products produced by other manufacturers that may compete directly with us, which may, in certain circumstances, hinder or impact our distributors' ability or incentive to maximize sales of our products. The occurrence of any of these factors could result in a significant decrease in the sales volume of our products and therefore adversely affect our financial conditions and results of operations.

We may not be able to accurately track our distributors' sales and inventory levels of our products, which could cause us to predict sales trends incorrectly.

Our distributors may be unable or unwilling to provide us with information in relation to their inventory levels and sales of our products in a timely manner, or at all. As we do not control the inventory and sales data belonging to our distributors, we rely on information provided to us by our distributors. As a result, our ability to accurately track the sales of our products by and the inventory level of our distributors is limited. Our sales to distributors may not be reflective of actual sales trends to consumers, and we may not be able to timely gather sufficient information and data regarding the market demand and consumers' preferences for our products. Failure to accurately track sales and inventory levels of our distributors and timely gather market information may cause us to incorrectly predict sales trends and impede us to quickly align our marketing and product strategies in response to market changes.

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. As of December 31, 2019, we covered 21 overseas countries and regions such as Korea, Japan, Singapore and the United States. We plan to continue expanding our sales and operations into global markets.

However, we may face risks associated with expanding into markets in which we have limited or no experience and in which our company 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;
- import or export licensing requirements 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;

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- different regulatory structures and unexpected changes in regulatory environments;
- 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 and managing an organization spread over various jurisdictions;
- 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 conditions, results of operations and prospects.

We intend 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 intend 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 pop 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.

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, orders to eliminate the influence of such advertisements, among others.

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The use of third-party manufacturers to manufacture products presents risks to our business.

We use third-party manufacturers to manufacture all of our self-developed products, and have historically relied on a small number of manufacturers and factories for the majority of our products. As a result, the loss or unavailability of one of our major manufacturers or 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 manufacturers if necessary, any such move may be time-consuming and costly. Because we believe manufacturing for us would generally take a significant percentage of the total capacity of each factory we work with, therefore establishing relationships with new manufacturers and having them work on similar terms with matching quality may be challenging. We may also be required to seek out additional manufacturers in response to increased demand for our products, as our current manufacturers may not have the capacity to increase production. If we fail to receive a material portion of the products made by our manufacturers, or if we fail to shift manufacturers, our sales and profitability could be significantly reduced.

In addition, while we require our third-party manufacturers to manufacture our products in compliance with all applicable laws and regulations, and we have the right to monitor the compliance requirements and oversee the quality control process of our manufacturers. There is always a risk that one or more of our third-party manufacturers will not comply with our requirements, and that we may not be able to discover such non-compliance immediately or at all. See also “— Failure in product quality control may adversely affect our business.” Any failure of our third-party manufacturers to comply with such requirements in manufacturing products for us could result in damage to our reputation, harm in our brand image, quality and sales of our products and potentially create liability for us.

Monitoring compliance by our manufacturers is also complicated by the fact that expectations of ethical business practices continually evolve, may be substantially more demanding than applicable legal requirements and are driven in part by legal developments and by diverse groups active in publicizing and organizing public responses to perceived ethical shortcomings. Accordingly, we cannot predict how such expectations might develop in the future and cannot be certain that our manufacturing requirements, even if complied with, would satisfy all parties who are active in monitoring and publicizing perceived shortcomings in labor and other business practices worldwide.

As such, the use of third-party manufacturers may expose us to product liability claims, administrative penalties, confiscation or destruction of certain products and their revenue, the revocation of business license, or the imposition of other administrative or the criminal liabilities. As a result, our business, financial condition and operating results may be adversely affected.

Failure in product quality control may adversely affect our business.

We outsource the production of our products to our suppliers, with our exercising quality control throughout the production process. In addition to our manufacturers’

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internal quality control systems, we 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 — Our Suppliers" and "Business — Quality Control" for further details. Nevertheless, we may not have effective control over whether our suppliers would strictly follow our specifications and instructions as to, for example, raw materials to be used in the production of our products. If defective products are manufactured and sold, it would result in damage to our reputation, product recall, consumer litigation and others that could materially and adversely affect our business.

Our success depends, in part, on our ability to successfully manage our inventories.

We must maintain sufficient inventory levels to operate our business successfully, but we must also avoid accumulating excess inventory, which increases working capital needs and lowers gross margin. We obtain substantially all of our inventory from third-party manufacturers and must typically order products well in advance of the time these products will be offered for sale to our customers. As a result, it may be difficult to respond to changes in consumer preferences and market conditions, which for pop culture products can change rapidly. If we do not accurately anticipate the popularity of certain products, then we may not have sufficient inventory to meet demand. Alternatively, if demand or future sales do not reach forecasted levels, we could have excess inventory that we may need to hold for a long period of time, write down, sell at prices lower than expected or discard. If we are not successful in managing our inventory, our business, financial condition and results of operations could be adversely affected.

We may also be negatively affected by changes in distributors' inventory policies and practices. Our distributors make no binding long-term commitments to us regarding purchase volumes and make all purchases by delivering purchase orders. Any distributor can therefore freely reduce its overall purchase of our products, and reduce the number and variety of our products that it carries and the shelf space allotted for our products. If demand or future sales do not reach forecasted levels, we could have excess inventory. If we are not successful in managing our inventory, our business, financial condition and results of operations could be adversely affected.

We are subject to certain risks relating to warehousing of the products we sell.

One of our primary distribution facilities is located in Beijing where we are headquartered and we also have an additional warehouse located in Nanjing. We also have two primary outsourced warehouses located in Jiaxing and Dongguan. Before delivery of products to our retail points or delivery points designated by our wholesale customers, we store them in our warehouses. We maintain insurance to cover financial losses we may sustain as a result of accidents, including fires, in our warehouses. However, if such accidents, including fires, were to occur, causing damage to the products we sell or our warehouses, our ability to supply products to our retail and wholesale channels on time could be adversely affected, causing our market reputation, financial condition, results of operations or business to be materially and adversely affected. The occurrence of any of these incidents could also

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require us to make significant unanticipated capital expenditures and delay our delivery of products. If any one or more of the above risks were to materialize, our financial condition and results of operations may be adversely affected.

We rely on third-party logistics companies to deliver our products.

We primarily engaged third-party logistics companies to transport our products. Disputes with or a termination of our contractual relationships with one or more of our logistics companies could result in delayed delivery of products or increased costs. There can be no assurance that we will be continue or extend relationships with our current logistics companies on terms acceptable to us, or that we will be able to establish relationships with new logistics companies or enhance our relationships with existing logistics to ensure accurate, timely and cost-efficient delivery services. Failure to do so may inhibit our ability to offer products in sufficient quantities, on a timely basis, or at prices acceptable to our consumers. In addition, as we do not have any direct control over these logistics companies, we cannot guarantee their quality of services. If there is any delay in delivery, damage to products or any other issue, our sales and brand image may be affected.

Our business depends in large part on the third parties including our vendors and outsourcers, and our reputation and ability to effectively operate our business may be harmed by actions taken by these third parties outside of our control.

We rely significantly on vendor and outsourcing relationships with third parties for services and systems including manufacturing, transportation, logistics and information technology. Any shortcoming of one of our vendors or outsourcers, particularly one affecting the quality of these services or systems, may be attributed by customers to us, thus damaging our reputation and brand value, and potentially affecting our results of operations. In addition, problems with transitioning these services and systems to, or operating failures with, these vendors and outsourcers could cause delays in product sales, reduce the efficiency of our operations and require significant capital investments to remediate.

Our success is critically dependent on the efforts and dedication of our officers and other employees, and the loss of one or more key employees, or our inability to attract and retain qualified personnel and maintain our corporate culture, could adversely affect our business.

Our success depends to a significant extent on the continued service and performance of our senior management team. We are dependent on their talents and believe they are integral to our relationships with artists, IP providers and other business partners. The loss of any member of our senior management team, or of any other key employees, could impair our ability to execute our business plan and could therefore have a material adverse effect on our business, financial condition and results of operations.

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In addition, competition for qualified personnel is intense. We compete with many other potential employers in recruiting, hiring and retaining our senior management team and our many other skilled officers and other employees in China. 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.

Furthermore, as we continue to grow our business and hire new employees, it may become increasingly challenging to hire people who will maintain our corporate culture. We believe our corporate culture, which fosters speed, teamwork and creativity, is one of our key competitive strengths. As we continue to grow, we may be unable to identify, hire or retain enough people who will maintain our corporate culture, including those in management and other key positions. Our corporate culture could also be adversely affected by the increasingly diversified workforce, as well as their increasingly diverse skill sets. If we are unable to maintain the strength of our corporate culture, our competitive ability and our business may be adversely affected.

Failure to successfully operate our information systems and implement new technology effectively could disrupt our business or reduce our sales or profitability.

We rely extensively on various information technology systems and software applications to manage many aspects of our business, including product development, management of our supply chain, sale and delivery of our products, financial reporting and various other processes and transactions. We are critically dependent on the integrity, security and consistent operations of these systems and related back-up systems. These systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, malware and other security breaches, catastrophic events such as hurricanes, fires, floods, earthquakes, tornadoes, acts of war or terrorism and usage errors by our employees. The efficient operation and successful growth of our business depends on these information systems, including our ability to operate them effectively and to select and implement adequate disaster recovery systems successfully. The failure of these information systems to perform as designed, our failure to operate them effectively, or a security breach or disruption in operation of our information systems could disrupt our business, require significant capital investments to remediate a problem or subject us to liability.

In addition, we may from time to time implement, modifications and upgrades to our information technology systems and procedures to support our growth and the development of our e-commerce business. These modifications and upgrades could require substantial investment, and may not improve our profitability at a level that outweighs their costs, or at all. In addition, the process of implementing any new technology systems involves inherent costs and risks, including potential delays and system failures, the potential disruption of our internal control structure, the diversion of management's time and attention, and the need to re-train or hire new employees, any of which could disrupt our business operations and have a material adverse effect on our business, financial condition and results of operations.

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If our electronic data is compromised our business could be significantly harmed.

We maintain significant amounts of data electronically. This data relates to all aspects of our business, including current and future products under development, and also contains certain customer, supplier, partner and employee data. We maintain systems and processes designed to protect the data within our control, but notwithstanding such protective measures, there is a risk of intrusion or tampering that could compromise the integrity and privacy of this data. In addition, we provide confidential and proprietary information to our third-party business partners in certain cases where doing so is necessary or appropriate to conduct our business. While we obtain assurances from those parties that they have systems and processes in place to protect such data, and where applicable, that they will take steps to assure the protections of such data by third parties, nonetheless those partners may also be subject to data intrusion or otherwise compromise the protection of such data. Any compromise of the confidential data of our customers, suppliers, partners, employees or ourselves, or failure to prevent or mitigate the loss of or damage to this data through breach of our information technology systems or other means could substantially disrupt our operations, harm our customers and other business partners, damage our reputation, violate applicable laws and regulations and subject us to additional costs and liabilities and loss of business that could be material.

A failure to comply with laws and regulations relating to privacy and the protection of data relating to individuals may result in negative publicity, claims, investigations and litigation, and adversely affect our financial performance.

We are subject to laws, rules, and regulations in the PRC and other countries and regions relating to the collection, use, transmission, storage and security of personal information and data. Such data privacy laws, regulations, and other obligations may require us to change our business practices, and may negatively impact our ability to expand our business and pursue business opportunities. We may incur significant expenses to comply with the laws, regulations and other obligations that apply to us.

Additionally, the privacy- and data protection-related laws, rules, and regulations applicable to us are subject to significant change. These laws and regulations also may be interpreted and enforced inconsistently over time and from jurisdiction to jurisdiction. For example, the Cyber Security Law of the PRC (the "**PRC Cyber Security Law**", 《中華人民共和國網絡安全法》) became effective in June 2017, but there are great uncertainties as to the interpretation and application of the law. It is possible that those regulatory requirements may be interpreted and applied in a manner that is inconsistent with our practices. In addition, the Office of the Central Cyberspace Affairs Commission, the Ministry of Industry and Information Technology, or the MIIT, the Ministry of Public Security, and the SAMR jointly issued an announcement on January 23, 2019 regarding carrying out special campaigns against mobile internet application programs collecting and using personal information in violation of applicable laws and regulations, which prohibits business operators from collecting personal information irrelevant to their services, or forcing users to give authorization in disguised manner. As this announcement is relatively new, we cannot assure you that we can adapt our operations to it in a timely manner.

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In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that either legally or otherwise apply to us. Any actual or perceived inability to comply with applicable privacy or data protection laws, regulations, or other obligations could result in significant cost and liability, litigation or governmental investigations, damage our reputation, and adversely affect our business.

Failure to pay the social insurance premium and housing provident funds for and on behalf of our employees in accordance with the Labor Contract Law or comply with other regulations of the PRC may have an adverse impact on our financial conditions and results of operation.

PRC laws and regulations require us to pay several statutory social welfare benefits for our employees, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund. The amounts of our contributions for our employees under such benefit plans are calculated based on certain percentage of salaries, including bonuses and allowances, up to a maximum amount specified by the local government from time to time at locations where we operate.

During the Track Record Period and up to the Latest Practicable Date, we had not made full contributions to the social insurance plan and housing provident fund based on the actual salary level of some of our employees as prescribed by relevant laws and regulations. As of the Latest Practicable Date, we had not received any notice from the local authorities or any claim or request from the relevant employees that require us to make payments or impose upon us administrative penalties for insufficient contributions. In 2017, 2018 and 2019, we made provisions of RMB0.2 million, RMB0.9 million and RMB4.4 million for the social insurance and housing provident fund contribution shortfall, respectively. For more information, see "Business — Legal Proceedings and Compliance Matters — Legal Compliance."

We cannot assure you that the relevant government authorities will not require us to pay the outstanding amount within a prescribed time and impose late charges or fines on us, which may materially and adversely affect our business, financial condition and results of operations.

We have adopted a share incentive plan, which may materially impact our future results of operations.

As a result of the grant of share-based awards, we expect to incur significant share-based compensation expenses in the future based on the fair value of the share-based awards, which will be recognized in our consolidated statement of incomes and adversely affect our net income.

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Some of our leased properties have title defects and did not complete registration procedures at relevant authorities.

We lease all of the properties for our business operations. As of the Latest Practicable Date, with respect to 633 out of 985 of our leased properties in the PRC, the lessor have not provided valid title certificates, valid title certificates for commercial purpose or relevant authorization documents evidencing their rights to lease the properties. For details, see "Business — Properties." As a result, we cannot assure you that we will not be subject to any challenges, lawsuits or other actions taken against us with respect to the properties leased by us for which the relevant lessors do not hold valid title certificates. If any of such properties were successfully challenged, the lease may be void and no more binding, we may be forced to relocate our operations on the affected properties and may be forced to cease these activities in the event we face challenges in relation to our properties. If we fail to find suitable replacement properties on terms acceptable to us for the affected operations, or if we are subject to any material liability resulting from third-party challenges for our lease of properties for which we or our lessors do not hold valid titles, our business, financial condition and results of operations may be materially and adversely affected.

In addition, under the relevant PRC law, all lease agreements are required to be registered with the relevant land and real estate administration bureaus. However, as of the Latest Practicable Date, the lease agreements with respect to 971 of our leased properties had not been registered and filed with the relevant land and real estate administration bureaus in the PRC because the relevant lessors failed to provide necessary documents for us to register the leases with the local government authorities. As advised by our PRC Legal Advisor, failure to complete the registration and filing of lease agreements will not affect the validity of the lease agreements or result in us being required to vacate the leased properties. However, the relevant PRC authorities may impose a fine ranging from RMB1,000 to RMB10,000 for each of such lease agreements. See "Business — Properties."

In addition, with respect the leased property of our headquarters in Beijing with a GFA of 4,133.14 sq.m., we did not complete the registration for fire protection design and the completion acceptance as of the Latest Practicable Date. According to the Fire Protection Law of the People's Republic of China, construction projects are subject to fire control design assessment by the competent housing and urban-rural development department and completion review. As advised by our PRC Legal Advisor, we may be subject to a fine ranging from RMB30,000 to RMB300,000 or suspension of the usage of the leased property. See "Business — Properties."

We require various approvals, licenses and permits to operate our business and any failure to obtain or renew any of these approvals, licenses and permits could materially and adversely affect our business and results of operations.

In accordance with the laws and regulations of the PRC, we are required to maintain various approvals, licenses and permits in order to operate our business in the PRC. These approvals, licenses and permits are granted upon satisfactory compliance with, among other things, the applicable laws and regulations. These approvals, licenses and permits are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation.

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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. The relevant store may be required to temporarily close until it satisfies all legal and regulatory requirements. We may also experience negative publicity arising from such deficiencies, which may materially and adversely affect our business and financial performance.

We may experience difficulties, delays or failures in obtaining the necessary approvals, licenses and permits for our new stores and our new processing facilities. 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.

Future expansion plans are subject to uncertainties and risks.

We have set out our future plans in the section headed "Future Plans and Use of [REDACTED]" in this Document. Whether our future plans can be implemented successfully may be beyond our control and some future events may affect the smooth running of the expansion plan such as change in costs related to the changes in compliance with the laws, rules and regulations, delays in obtaining the necessary licenses and approvals from the government.

In the future, we may decide to enter into new regions or markets or selectively pursue strategic acquisitions or investments in new markets. We may have limited or no experience operating in new regions or markets that have cultures and customs, legal and regulatory frameworks, competitive landscapes and customer preferences different from our existing markets. We may not be familiar with the local business and regulatory environment of the new markets and as such, we may fail to comply with the new regulatory requirements or attract a sufficient number of customers to achieve profitability.

There is no assurance that we will be successful in our expansion plans. If we fail to project accurately the time, labor and costs required for implementing our expansion plans, or if we fail to comply with the new regulatory requirements of new regions or markets secure sufficient amount of sales order or at all after the expansion, our business and results of operation may be adversely affected.

We have limited insurance to cover our potential losses and claims.

We maintained limited statutory insurance, which we believe is customary for businesses of our size and type and in line with the standard commercial practice in our industry. See "Business — Insurance" for more details on our insurance policies. If we were held liable for uninsured losses, our business and results of operations may be materially and adversely affected.

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We may be subject to natural disasters, acts of war or terrorism or other factors beyond our control.

Natural disasters, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. Our operations may be under the threat of floods, earthquakes, sandstorms, snowstorms, fire or drought, power, water or fuel shortages, failures, malfunction and breakdown of information management systems, unexpected maintenance or technical problems, or are susceptible to potential wars or terrorist attacks. Serious natural disasters may result in loss of life, injury, destruction of assets and disruption of our business and operations. Acts of war or terrorism may also injure our employees, cause loss of lives, disrupt our business network and destroy our markets. Any of these factors and other factors beyond our control could have an adverse effect on the overall business sentiment and environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and results of operations.

We cannot guarantee that we will not be involved in claims, disputes or legal proceedings in our ordinary course of business.

From time to time, we may be involved in claims, disputes or legal proceedings in our ordinary course of business. These may concern issues relating to, among others, product quality incidents, environmental matters, breach of contract, employment or labor disputes and infringement of intellectual property rights. As of the Latest Practicable Date, we were not involved in any litigation or legal proceedings that may materially affect our business and results of operations. Any claims, disputes or legal proceedings initiated by us or brought against us, with or without merit, may result in substantial costs and diversion of resources, and if we are unsuccessful, could materially harm our reputation. Furthermore, claims, disputes or legal proceedings against us may be due to defective supplies sold to us by our suppliers, who may not be able to indemnify us in full and in a timely manner, or at all, for any costs that we incur as a result of such claims, disputes and legal proceedings.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of contractual arrangements and the relinquishment of our interest in Paqu Huyu.

Current PRC laws and regulations impose certain restrictions and prohibitions on foreign ownership of companies that engage in the internet and other related businesses, such as the provision of internet information.

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We are a company incorporated under the laws of the Cayman Islands, and Beijing Pop Mart, our PRC subsidiary, is considered a foreign-invested enterprise. To comply with PRC laws and regulations, we conduct a portion of our business in China through Paqu Huyu based on contractual arrangements which enable us to (i) have the power to direct the activities that most significantly affect the economic performance of Paqu Huyu; (ii) receive substantially all of the economic benefits from Paqu Huyu in consideration for the services provided by Beijing Popmart, respectively; and (iii) have an exclusive option to purchase all or part of the equity interests in Paqu Huyu when and to the extent permitted by PRC law, or request that any existing shareholder of Paqu Huyu to transfer any or part of the equity interest in Paqu Huyu to another PRC person or entity designated by us at any time at our discretion according to the relevant law. Because of these contractual arrangements, we are the primary beneficiary of Paqu Huyu and hence consolidate its results of operations into ours. Paqu Huyu holds certain licenses, approvals and key assets that are essential for our business operations.

If the PRC government finds that our contractual arrangements do not comply with its restrictions on foreign investment in businesses, or if the PRC government otherwise finds that we or Paqu Huyu is in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, including the MOFCOM, MIIT and MCT, would have broad discretion in dealing with such violations or failures, including, without limitation:

- revoking our business and operating licenses;
- discontinuing or restricting our operations;
- imposing fines or confiscating any of our income that they deem to have been obtained through illegal operations;
- imposing conditions or requirements with which we or our PRC subsidiaries and Paqu Huyu may not be able to comply;
- requiring us or our PRC subsidiaries and Paqu Huyu to restructure the relevant ownership structure or operations;
- restricting or prohibiting our use of the [REDACTED] from the [REDACTED] or other of our financing activities to finance the business and operations of Paqu Huyu; or
- taking other regulatory or enforcement actions that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations and may materially and adversely affect our business, financial condition and results of operations. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of Paqu Huyu in our consolidated financial statements, if the PRC governmental authorities find our legal

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structure and contractual arrangements to be in violation of PRC laws, rules and regulations. If any of these penalties results in our inability to direct the activities of Paqu Huyu that most significantly impact their economic performance and/or our failure to receive the economic benefits from Paqu Huyu, we may not be able to consolidate Paqu Huyu into our consolidated financial statements in accordance with IFRS.

Our contractual arrangements may not be as effective in providing operational control as direct ownership. Paqu Huyu or its Relevant Shareholders may fail to perform their obligations under our contractual arrangements.

Due to the PRC restrictions or prohibitions on foreign ownership of internet and other related businesses in China, we operate a portion of our business in China through Paqu Huyu, in which we have no ownership interest. We rely on a series of contractual arrangements with Paqu Huyu and its Relevant Shareholders to control and operate its business. These contractual arrangements are intended to provide us with effective control over Paqu Huyu and allow us to obtain economic benefits from it. See "Contractual Arrangements" for more details about these contractual arrangements.

Although we have been advised by our PRC Legal Advisor, that our contractual arrangements with Paqu Huyu constitute valid and binding obligations enforceable against each party of such agreements in accordance with their terms, these contractual arrangements may not be as effective in providing control over Paqu Huyu as direct ownership. If our Paqu Huyu or its Relevant Shareholders fail to perform their respective obligations under the contractual arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. All of these contractual arrangements are governed by, and interpreted in accordance with, PRC laws and disputes arising from these contractual arrangements will be resolved through arbitration or litigation in China. However, the legal system in China is still evolving and not as developed as in other jurisdictions. There are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties could limit our ability to enforce these contractual arrangements. In the event we are unable to enforce these contractual arrangements or we experience significant delays or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our affiliated entities and may lose control over the assets owned by Paqu Huyu. As a result, we may be unable to consolidate Paqu Huyu in our consolidated financial statements and our ability to conduct our business may be negatively affected.

We may lose the ability to use assets held by Paqu Huyu that are material to our business operations if Paqu Huyu declare bankruptcy or become subject to a dissolution or liquidation proceeding.

We may not have priority pledges and liens against the assets of Paqu Huyu. If Paqu Huyu undergoes an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of its assets and we may not have priority over such

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third-party creditors on the assets of Paqu Huyu. If Paqu Huyu liquidates, we may take part in the liquidation procedures as a general creditor under the PRC Enterprise Bankruptcy Law and recover any outstanding liabilities owed by us under the applicable service agreement.

If the Relevant Shareholders of Paqu Huyu were to attempt to voluntarily liquidate Paqu Huyu without obtaining our prior consent, we could effectively prevent such unauthorized voluntary liquidation by exercising our right to request that the Relevant Shareholders of Paqu Huyu suspend such voluntary liquidation and/or transfer all of their respective equity ownership interests to a PRC entity or individual designated by us in accordance with the Exclusive Option Agreement with the Relevant Shareholders of Paqu Huyu. In addition, under the contractual arrangements signed by Paqu Huyu and its Relevant Shareholders, the Relevant Shareholders of Paqu Huyu do not have the right to issue dividends to themselves or otherwise distribute the retained earnings or other assets of Paqu Huyu without our consent. In the event that the Relevant Shareholders of Paqu Huyu initiate a voluntary liquidation proceeding without our authorization or attempt to distribute the retained earnings or assets of Paqu Huyu without our prior consent, we may need to resort to legal proceedings to enforce the terms of the contractual arrangements. Any such legal proceeding may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such legal proceeding will be uncertain.

The Relevant Shareholders of Paqu Huyu may have conflicts of interest with us, which may materially and adversely affect our business.

The Relevant Shareholders of Paqu Huyu may potentially have a conflict of interest with us, and they may breach their Contractual Arrangements with us, if they believe it would further their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us and Paqu Huyu, the Relevant Shareholders of Paqu Huyu will act in our interests or that the conflicts of interest will be resolved in our favor.

In addition, the Relevant Shareholders of Paqu Huyu may breach or cause Paqu Huyu to breach the Contractual Arrangements. If Paqu Huyu or its Relevant Shareholders breach their Contractual Arrangements with us or otherwise have disputes with us, we may have to initiate legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly disrupt our business operations, adversely affect our ability to control Paqu Huyu and otherwise result in negative publicity. We cannot assure you that the outcome of any such dispute or proceeding will be in our favor.

If we exercise the option to acquire equity ownership and assets of Paqu Huyu the ownership or asset transfer may subject us to certain limitations and substantial costs.

Pursuant to the contractual arrangements, Beijing Pop Mart or its designated person(s) has the exclusive right to purchase all or any part of the equity interests in Paqu Huyu from its Relevant Shareholders for a nominal price.

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The equity transfer may be subject to the approvals from and filings with the MOFCOM, the MIIT, the SAMR and other competent governmental authorities and/or their local competent branches. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax or commerce authority. The Relevant Shareholders of Paqu Huyu will pay the equity transfer price they receive to Paqu Huyu under the contractual arrangements. The amount to be received by Paqu Huyu may also be subject to enterprise income tax. Such tax amounts could be substantial.

Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

On March 15, 2019, the National People's Congress approved the Foreign Investment Law which will come into effect on January 1, 2020. The Foreign Investment Law will replace the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law (《外資企業法》) to become the legal foundation for foreign investment in the PRC. The Foreign Investment Law defines foreign investment as any investment activity directly or indirectly carried out in the PRC by one or more foreign natural persons, enterprises or other organizations ("Foreign Investor(s)"), and specifically stipulates four forms of investment activities as foreign investment, namely, (a) establishment of a foreign invested enterprise in the PRC by a Foreign Investor, either individually or collectively with any other investor, (b) obtaining shares, equities, assets interests or any other similar rights or interests of an enterprise in the PRC by a Foreign Investor; (c) investment in any new construction project in the PRC by a Foreign Investor, either individually or collectively with any other investor, and (d) investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council.

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in China. The Foreign Investment Law stipulates four forms of investment activity as foreign investment. However, the Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment.

Notwithstanding the above, the Foreign Investment Law stipulates that "investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council." Therefore, there is the possibility that future laws, administrative regulations or provisions of the State Council may stipulate certain contractual arrangements to be a means of foreign investment, which may affect whether our contractual arrangements will be recognized as foreign investment, whether our contractual arrangements will be deemed to be in violation of the foreign investment access requirements, and therefore how our contractual arrangements will be handled are uncertain.

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In an extreme scenario, we may be required to unwind the contractual arrangements and/or dispose of Paqu Huyu, which could have a material and adverse effect on our business, financial condition and result of operations. In the event that we no longer have a sustainable business after the aforementioned unwinding of the contractual arrangements or disposal or in the event such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares or even result in the delisting of our Company. For details of the Foreign Investment Law and its potential impact on our Company, see "Regulations — Regulations on Foreign Investment — The PRC Foreign Investment Law."

Therefore, there is no guarantee that our contractual arrangements and the business of Paqu Huyu will not be materially and adversely affected in the future.

Our contractual arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your [REDACTED].

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our PRC subsidiaries and Paqu Huyu do not represent an arm's-length price and adjust Paqu Huyu's income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction for PRC tax purposes, of expense deductions recorded by Paqu Huyu, which could in turn increase their tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to our PRC variable interest entities for under-paid taxes. Our results of operations may be materially and adversely affected if our tax liabilities increase or if we are found to be subject to late payment fees or other penalties.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which legal cases have limited value as precedents. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly increased the protections afforded to various forms of foreign or private sector investment in China. Our PRC subsidiaries and Paqu Huyu are subject to various PRC laws and regulations generally applicable to companies in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties.

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From time to time we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities may differ in their discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations.

PRC economic, political and social conditions as well as government policies could adversely affect our business and prospects.

Substantially all of our operations are located in China. Accordingly, our business, prospects, financial condition and results of operations may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the Chinese government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China, and since 2012, the Chinese economy has slowed down. Any prolonged slowdown in the Chinese economy may reduce the demand for our services and materially and adversely affect our business and results of operations.

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The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, and certain other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified for approval in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Anti-Monopoly Law requires that approval from the Anti-Monopoly Bureau of SAMR shall be obtained in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by the MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our Shareholders and have a material adverse effect on our results of operations and the value of your [REDACTED].

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation, or SAT, issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners like us, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated

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enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” As substantially all of our management members are based in China, it remains unclear how the tax residency rule will apply to our case. If the PRC tax authorities determine that we or any of our subsidiaries outside of China is a PRC resident enterprise for PRC enterprise income tax purposes, then we or such subsidiary could be subject to PRC tax at a rate of 25% on our or the subsidiary’s worldwide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Furthermore, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, dividends paid by us will, and gains realized on the sale or other disposition of our ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), and in the case of dividends, the PRC tax will be withheld at source if such dividends or gains are deemed to be from PRC sources. It is unclear whether non-PRC Shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your [REDACTED] in our [REDACTED].

Fluctuations in exchange rates could result in foreign currency exchange losses.

The value of RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government’s policies and depends 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. In addition, the People’s Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals.

The [REDACTED] from the [REDACTED] will be received in Hong Kong dollars. 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

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depreciation of the RMB may adversely affect the value of, and any 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. Furthermore, we are also currently required to obtain the SAFE's approval before converting significant sums of foreign currencies into RMB. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, the Shares in foreign currency terms.

The PRC government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our net revenues in RMB. Under our current corporate structure, our company in the Cayman Islands relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulation, such as the overseas investment registrations by the beneficial owners of our company who are PRC residents. However, approval from or registration with appropriate governmental authorities or their designated agencies like commercial banks is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies.

In light of the flood of capital outflows of China in 2016 due to the weakening of RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion further restrict access to foreign currencies in the future for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by, or registration with,

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relevant governmental authorities or their designated agencies such as commercial banks in China. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System, or FICMIS, and registration with other governmental authorities or designated commercial banks in China. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE, or its local branches or designated commercial banks, and (ii) each of our PRC subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount as recorded in FICMIS or twice the net assets of such applicable PRC subsidiary. Any medium- or long-term loan exceeding one year to be provided by us to Paqu Huyu must be recorded and registered by the National Development and Reform Committee and the SAFE or its local branches. We may not be able to complete such recording or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such recording or registration, our ability to use the [REDACTED] of [REDACTED] and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises (the "**SAFE Circular 19**", 《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》). SAFE Circular 19 took effect as of June 1, 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capital of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using RMB funds converted from their foreign exchange capital for expenditures beyond their business scope, and other prohibited uses thereunder. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange (the "**SAFE Circular 16**", 《國家外匯管理局關於政策和規範資本項目結匯管理政策的通知》). SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises consistent with SAFE Circular 19 from, among other things, using RMB fund converted from its foreign exchange capital for expenditure beyond its business scope, investment and financing of securities investment or non-guaranteed bank products), providing loans to non-affiliated enterprises (except for those permitted within the business scope) or constructing or purchasing real estate not for self-use. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in China the [REDACTED] from this [REDACTED], which may adversely affect our business, financial condition and results of operations.

Heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your [REDACTED] in us.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (the "**Circular 698**", 《國家稅務

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總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》), issued by the SAT, which became effective retroactively as of January 1, 2008 and abolished and void as of December 1, 2017, where a non-resident enterprise investor transfers equity interests in a PRC resident enterprise indirectly by way of disposing of equity interests in an overseas holding company, the non-resident enterprise investor, being the transferor, may be subject to PRC enterprise income tax, if the indirect transfer is considered to be an abusive use of company structure without reasonable commercial purposes. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at the rate of up to 10%. In addition, the PRC resident enterprise may be required to provide necessary assistance to support the enforcement of Circular 698.

On February 3, 2015, the State Administration of Tax issued a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises (the "**Public Notice 7**", 《國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告》). Public Notice 7 has introduced a new tax regime that is significantly different from that under Circular 698. Public Notice 7 extends its tax jurisdiction to not only indirect transfers set forth under Circular 698 but also transactions involving transfer of other PRC taxable assets through the offshore transfer of a foreign intermediate holding company. In addition, Public Notice 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. Public Notice 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an "indirect transfer" by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets may report to the relevant tax authority such indirect transfer. Using a "substance over form" principle, the PRC tax authority may re-characterize such indirect transfer as a direct transfer of the equity interests in the PRC tax resident enterprise and other properties in China. As a result, gains derived from such indirect transfers may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of up to 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to late payment fees and penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes on a timely manner.

We face uncertainties with respect to the reporting and consequences of private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies, or other taxable assets, by us. Our company and other non-resident enterprises of ours may be subject to filing or tax obligations if our company and other non-resident enterprises of ours are transferors in such transactions, and we may be subject to withholding obligations if our company and other non-resident enterprises of ours are transferees in such transactions, under Public Notice 7. For the transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be

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requested to assist in the filing under Public Notice 7. As a result, we may be required to expend valuable resources to comply with Public Notice 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company and other non-resident enterprises of ours should not be taxed under these circulars. The PRC tax authorities have the discretion under Public Notice 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. If the PRC tax authorities make adjustments to the taxable income of the transactions under Public Notice 7, our income tax costs associated with such transactions may be increased, which may have an adverse effect on our financial condition and results of operations. We have made acquisitions in the past and may conduct additional acquisitions in the future. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance to them for the investigation of any transactions we were involved in. Heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

We may be subject to penalties, including restriction on our ability to inject capital into our PRC subsidiaries and our PRC subsidiaries' ability to distribute profits to us, if our PRC resident Shareholders or beneficial owners fail to comply with relevant PRC foreign exchange regulations.

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with, and obtain approval from, local branches of the SAFE and/or their designated commercial banks in connection with their direct or indirect offshore investment activities. The Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, (the "**SAFE Circular 37**", 《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程外匯管理有關問題的通知》), was promulgated by the SAFE in July 2014 that requires PRC residents or entities to register with the SAFE or its local branch or designated commercial banks in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. These regulations apply to our Shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch or commercial banks of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC

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subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions, including (i) the requirement by the SAFE to return the foreign exchange remitted overseas or into PRC within a period of time specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas or into PRC and deemed to have been evasive or illegal and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive or illegal.

We have requested PRC residents holding direct or indirect interest in our Company to our knowledge to make the necessary applications, filings and amendments as required by applicable foreign exchange regulations. In addition, we may not always be able to compel them to comply with SAFE Circular 37 or other related regulations. Failure by any such Shareholders to comply with SAFE Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or other payments to us or affect our ownership structure, which could adversely affect our business and prospects. As of the Latest Practicable Date, we cannot assure you that our individual Shareholders who are PRC citizens have completed their registration under the SAFE Circular 37.

As there is uncertainty concerning the reconciliation of these foreign exchange regulations with other approval requirements, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant governmental authorities. We cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

Failure to comply with PRC regulations regarding the registration requirements for the [REDACTED] Share Award Scheme may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies (the "**SAFE Circular 7**", 《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》), replacing the previous rules issued by SAFE in March 2007. Under SAFE Circular 7 and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly-listed company are required to register with the SAFE or its local branches or commercial banks and complete certain other

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procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by a PRC subsidiary, to conduct SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend its SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. Also, SAFE Circular 37 stipulates that PRC residents who participate in a share incentive plan of an overseas non-publicly-listed special purpose company may register with the SAFE or its local branches or commercial banks before their share awards are vested. We and our PRC employees who are granted share awards will be subject to these regulations upon the completion of this [REDACTED]. Failure to complete their SAFE registrations may subject these PRC residents to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals, and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute dividends to us, or otherwise materially adversely affect our business.

The SAT has also issued relevant rules and regulations concerning employee share incentives. Under these rules and regulations, our employees working in the PRC will be subject to PRC individual income tax upon grant of the share awards. Our PRC subsidiaries have obligations to file documents with respect to the granted share awards with relevant tax authorities and to withhold individual income taxes for their employees upon grant of the share awards. If our employees fail to pay or we fail to withhold their individual income taxes according to relevant rules and regulations, we may face sanctions imposed by the competent governmental authorities.

Certain judgments obtained against us by our Shareholders may not be enforceable.

We are a company incorporated in the Cayman Islands and substantially all of our assets are located in China and substantially all of our current operations are conducted in China as well. In addition, a majority of our current directors and officers are nationals and residents of China and substantially all of the assets of these persons are located in China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon us or these persons, or to bring an action in Hong Kong against us or against these individuals in the event that you believe that your rights have been infringed under the applicable securities laws or otherwise. In addition, because there are no specific statutory and judicial interpretations or guidance on a PRC court's jurisdiction over cases brought under foreign securities laws other than those specified in the Securities Law of the People's Republic of China, the PRC criminal laws and its corresponding procedural laws or conflicts of laws, it may be difficult for you to bring an original action against us or our PRC resident officers and directors in a PRC court based on the liability provisions of non-PRC securities laws. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

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RISKS RELATING TO THE [REDACTED]

There has been no prior public market for the Shares and the liquidity and market price of our Shares may be volatile.

Prior to completion of the [REDACTED], there has been no public stock market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the [REDACTED]. The [REDACTED] is the result of negotiations among our Company, and the [REDACTED] (for themselves and on behalf of the [REDACTED]), which may not be indicative of the price at which our Shares will be traded following completion of the [REDACTED]. The market price of our Shares may drop below the [REDACTED] at any time after completion of the [REDACTED].

The trading price of the Shares may be volatile, which could result in substantial losses to you.

The trading price of our 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. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. A number of PRC-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their [REDACTED]. The trading performances of the securities of these companies at the time of or after their [REDACTED] may affect the overall investor sentiment towards PRC-based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

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

The [REDACTED] of our [REDACTED] sold in the [REDACTED] is expected to be determined on the [REDACTED]. However, the Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be [REDACTED] Business Days after the [REDACTED]. As a result, [REDACTED] may not be able to sell or otherwise deal in the Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of the Shares when trading 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 trading begins.

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

As the [REDACTED] of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the [REDACTED], purchasers of our Shares in the [REDACTED] will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Shares in the [REDACTED] may experience further dilution in their shareholding percentage.

The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and our controlling shareholder, could adversely affect the market price of our Shares.

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and our controlling shareholder, or the perception or anticipation of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by our controlling shareholder are subject to certain lock-up periods. While we currently are not aware of any intention of our controlling shareholder to dispose of significant amounts of his Shares after the expiry of the lock-up periods, we cannot assure you that he will not dispose of any Shares he may own now or in the future.

We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under the laws of the Cayman Islands than other jurisdictions, you may have difficulties in protecting your shareholder rights.

Our corporate affairs are governed by our Memorandum and Articles and by the Cayman Companies Law and common law of the Cayman Islands. The rights of Shareholders to take legal action against our Directors and us, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedent in existence in the jurisdictions where minority Shareholders may be located. See "Appendix III — Summary of the Constitution of our Company and Cayman Companies Law" in this Document.

As a result of all of the above, minority Shareholders may have difficulties in protecting their interests under the laws of the Cayman Islands through actions against our management, Directors or Controlling Shareholders, which may provide different remedies to minority Shareholders when compared to the laws of the jurisdiction in which such shareholders are located.

RISK FACTORS

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 pop 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 [REDACTED], the Joint Sponsors, the [REDACTED], the [REDACTED], the [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.

We published periodic financial information on the NEEQ in the PRC pursuant to applicable rules and regulations and you should be cautious and not place any reliance on financial information other than that disclosed in this Document.

We were listed on the NEEQ in 2017 and then delisted in 2019. Pursuant to applicable PRC rules and regulations, we were required to publish periodic financial information. Interim financial information published by us in the PRC is normally derived from its management accounts and is not audited or reviewed by independent auditors. Certain historical financial information not included in this Document may not be directly comparable with our consolidated financial information contained in this Document. Accordingly, financial information published in the PRC by us should not be relied upon by potential [REDACTED] to provide the same quality of information associated with any consolidated financial information contained in this Document.

RISK FACTORS

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 LISTING RULES

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

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong and, under normal circumstances, at least two of the new applicant's executive directors must be ordinarily resident in Hong Kong.

Since our headquarters and most of the business operations of our Group are managed and conducted outside of Hong Kong, and all of the executive Directors of our Company ordinarily reside outside Hong Kong, our Company considers that it would be practically difficult and commercially unreasonable and undesirable for our Company to arrange for two executive Directors to be ordinarily resident in Hong Kong, either by means of relocation of existing executive Directors or appointment of additional executive Directors. Our Company does not have and does not contemplate in the foreseeable future that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed Mr. Wang, our executive Director, and Ms. Li Ching Yi, one of our joint company secretaries, as authorized representatives of our Company, to be the principal channel of communication with the Stock Exchange. Each of them has confirmed that he/she can be readily contactable by phone, facsimile and email to deal promptly with enquiries from the Stock Exchange, and will also be available to meet with the Stock Exchange to discuss any matters on short notice. As and when the Stock Exchange wishes to contact the Directors on any matters, each of the authorized representatives will have means to contact all of the Directors promptly at all times. Our Company will also inform the Stock Exchange promptly in respect of any change in the authorized representatives;
- (b) in addition to the appointment of the authorized representatives, to facilitate communication with the Stock Exchange, the contact details of each Director, including his/her mobile phone number, office phone number, facsimile number and e-mail address have been provided to each of the authorized representatives, our joint company secretaries and the Compliance Adviser (as defined below) who have means for contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact the Directors on any matters. Furthermore, each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period as and when required;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (c) pursuant to Rule 3A.19 of the Listing Rules, our Company has appointed Guotai Junan Capital Limited (the "**Compliance Adviser**") for the period commencing from the date of our [REDACTED] until the date on which our Company announces our financial results and distributes our [REDACTED] for the first full financial year after the date of our [REDACTED]. The Compliance Adviser will act as our Company's additional and alternative channel of communication with the Stock Exchange, and its representatives will be readily available to answer enquiries from the Stock Exchange. Our Company will ensure that there are adequate and efficient means of communication among us, our authorized representatives, Directors and other officers and the Compliance Adviser, and will keep the Compliance Adviser fully informed of all communications and dealings between us and the Stock Exchange. Our Company will also inform the Stock Exchange promptly in respect of any change in the Compliance Adviser. Meetings with the Stock Exchange and the Directors can be arranged through our Company's authorized representatives or the Compliance Adviser, or directly with the Directors with reasonable notice; and
- (d) in addition to the Compliance Adviser's role and responsibilities after the [REDACTED] (i) to inform our Company on a timely basis of any amendment or supplement to the Listing Rules and any new or amended law, regulations or codes in Hong Kong applicable to our Company, and (ii) to provide advice to our Company on the continuing requirements under the Listing Rules and applicable laws and regulations, our Company will retain a Hong Kong legal advisor to advise us on the compliance with the Listing Rules and other applicable Hong Kong laws and regulations relating to securities after the [REDACTED].

WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary must be an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary.

Our Company had appointed Mr. Li Hongxuan ("**Mr. Li**") and Ms. Li Ching Yi ("**Ms. Li**") as our joint company secretaries. Ms. Li is an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and the Hong Kong Institute of Chartered Secretaries, and therefore meets the qualification requirements under Note 1 to Rule 3.28 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

Mr. Li has been responsible for investor relationship of our Company since April 2019. He has extensive experience in board and corporate management matters but presently does not possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules. While Mr. Li may not be able to solely fulfill the requirements of the Listing Rules, our Company believes that it would be in the best interests of our Company and the corporate governance of our Company to appoint Mr. Li as our joint

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

company secretary due to his thorough understanding of the internal administration and business operations of our Group.

Accordingly, while Mr. Li does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Mr. Li may be appointed as a joint company secretary of our Company.

The waiver [was granted] for a three-year period on the condition that Ms. Li, as a joint company secretary of our Company, will work closely with, and provide assistance to, Mr. Li in the discharge of his duties as a joint company secretary and in gaining the relevant company secretary experience as required under Rule 3.28 of the Listing Rules and to become familiar with the requirements of the Listing Rules and other applicable Hong Kong laws and regulations. Given Ms. Li's professional qualifications and experience, she will be able to explain to both Mr. Li and our Company the relevant requirements under the Listing Rules. She will also assist Mr. Li in organizing board meetings and Shareholders' meetings of our Company as well as other matters of our Company which are incidental to the duties of a company secretary. Ms. Li is expected to work closely with Mr. Li, and will maintain regular contact with Mr. Li, the Directors and the senior management of our Company. The waiver will be revoked immediately if Ms. Li ceases to provide assistance to Mr. Li as the joint company secretary for the three-year period after [REDACTED]. In addition, Mr. Li will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance his knowledge of the Listing Rules during the three-year period from the [REDACTED].

In the course of preparation of the [REDACTED], Mr. Li attended a training seminar on the respective obligations of the directors and senior management and our Company under the relevant Hong Kong laws and the Listing Rules provided by our Company's Hong Kong legal advisor, Davis Polk & Wardwell, and has been provided with the relevant training materials. Our Company will further ensure that Mr. Li has access to the relevant training and support that would enhance his understanding of the Listing Rules and the duties of a company secretary of an issuer [REDACTED] on the Stock Exchange, and to receive updates on the latest changes to the applicable Hong Kong laws, regulations and the Listing Rules. Furthermore, both Mr. Li and Ms Li will seek and have access to advice from our Company's Hong Kong legal and other professional advisors as and when required. Our Company has appointed Guotai Junan Capital Limited as the Compliance Adviser upon our [REDACTED] pursuant to Rule 3A.19 of the Listing Rules, which will act as our Company's additional channel of communication with the Stock Exchange, and provide professional guidance and advice to our Company and its joint company secretaries as to compliance with the Listing Rules and all other applicable laws and regulations. Prior to the end of the three-year period, the qualifications and experience of Mr. Li and the need for on-going assistance of Ms. Li will be further evaluated by our Company. We will liaise with the Stock Exchange to enable it to assess whether Mr. Li, having benefited from the assistance of Ms. Li for the preceding three years, will have acquired the skills necessary to carry out the duties of company secretary and the "relevant experience" within the meaning of Rule 3.28 Note 2 of the Listing Rules so that a further waiver will not be necessary.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Please refer to the section headed "Directors and Senior Management" in this Document for further information regarding the qualifications of Mr. Li and Ms. Li.

WAIVER IN RESPECT OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Company has entered into, and is expected to continue after the [REDACTED], certain transactions in respect of the Contractual Arrangements which will constitute non-exempt continuing connected transactions as defined under the Listing Rules. We have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with (i) the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the connected transactions under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are [REDACTED] on the Stock Exchange, subject to certain conditions. For further information on such waiver please refer to the section headed "Connected Transactions" in this Document.

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]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
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Executive Directors

Mr. Wang Ning (王寧)	Room 601, Unit 6, No. 9 Rongke Ganlancheng, Chaoyang District, Beijing, PRC	Chinese
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Ms. Yang Tao (楊濤)	Room 601, Unit 6, No. 9 Rongke Ganlancheng, Chaoyang District, Beijing, PRC	Chinese
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Ms. Liu Ran (劉冉)	No. 20C, Unit 4, Building 107, Baoxingyuan, Hongtai East Street, Chaoyang District, Beijing, PRC	Chinese
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Mr. Si De (司德)	Room 1205, Unit 4, Floor 11, Block 3, 8 Furong Street, Chaoyang District, Beijing, PRC	Chinese
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Non-Executive Directors

Mr. Tu Zheng (屠錚)	Room 102, Building 11, Yujiayang, Yunhaiyuan, Feiying Street, Wuxing District, Huzhou City, Zhejiang Province, PRC	Chinese
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Mr. He Yu (何愚)	Room 101, No. 4, Lane 87, Yaohua Road, Pudong New Area, Shanghai, PRC	Chinese
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Independent Non-Executive Directors

Mr. Zhang Jianjun (張建君)	No. 14-1605, Zhixueyuan, Haidian District, Beijing, PRC	Chinese
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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
Mr. Wu Liansheng (吳聯生)	No. 1304, Unit 3, Building 3, Jiayuan, Wudaokou, Zhanchunyuan West Road, Haidian District, Beijing, PRC	Chinese
Mr. Ngan King Leung Gary (顏勁良)	Flat A, 30/F, the Mayfair, 1 May Road, Mid-Levels, Hong Kong	Chinese (Hong Kong)

Further information is disclosed in the section headed "Directors and Senior Management" in this Document.

PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors

Morgan Stanley Asia Limited
46/F, International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

CLSA Capital Markets Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

**Legal Advisers to our
Company**

As to Hong Kong and U.S. laws

Davis Polk & Wardwell

18th Floor, The Hong Kong Club Building

3A Chater Road

Central

Hong Kong

As to PRC law

Jingtian & Gongcheng

45/F, K. Wah Centre

1010 Huaihai Road (M)

Xuhui District,

Shanghai 200031

PRC

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

	<p><i>As to Cayman Islands law</i> Maples and Calder (Hong Kong) LLP 53rd Floor, the Center 99 Queen's Road Central Hong Kong</p>
<p>Legal Advisers to the Joint Sponsors and the [REDACTED]</p>	<p><i>As to Hong Kong and U.S. laws</i> Simpson Thacher & Bartlett 35/F, ICBC Tower 3 Garden Road Central Hong Kong</p>
	<p><i>As to PRC law</i> King & Wood Mallesons 18th Floor, East Tower World Financial Center 1 Dongsanhuan Zhonglu Chaoyang District Beijing 100020 PRC</p>
<p>Auditor and Reporting Accountant</p>	<p>PricewaterhouseCoopers Certified Public Accountants Registered Public Interest Entity Auditor 22/F, Prince's Building Central, Hong Kong</p>
<p>Compliance Adviser</p>	<p>Guotai Junan Capital Limited 27/F, Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong</p>
	<p>[REDACTED]</p>
<p>Industry Consultant</p>	<p>Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. Room 1018, Tower B No. 500 Yunjin Road Xuhui District, Shanghai China, 200232</p>

CORPORATE INFORMATION

Registered Office in the Cayman Islands	Sertus Incorporations (Cayman) Limited Sertus Chambers, Governors Square Suite # 5-204, 23 Lime Tree Bay Avenue P.O. Box 2547, Grand Cayman, KY1-1104 Cayman Islands
Headquarters and Principal Place of Business in the PRC	Floor 36 & 37, Block A Puxiang Center Hongtai East Street Dawangjing Technology Business Park Chaoyang District Beijing PRC
Principal Place of Business in Hong Kong	14/F, Golden Centre, 188 Des Voeux Road Central, Hong Kong
Company Website	<u>www.popmart.com</u> <i>(the information contained on this website does not form part of this Document)</i>
Joint Company Secretaries	Mr. Li Hongxuan (李鴻軒) Floor 36 & 37, Block A Puxiang Center Hongtai East Street Dawangjing Technology Business Park Chaoyang District Beijing, PRC Ms. Li Ching Yi (李菁怡) (ACIS, ACS) 14/F, Golden Centre, 188 Des Voeux Road Central, Hong Kong
Authorised Representatives	Mr. Wang Ning (王寧) Room 601, Unit 6, No. 9 Rongke Ganlancheng, Chaoyang District, Beijing, PRC Ms. Li Ching Yi (李菁怡) (ACIS, ACS) 14/F, Golden Centre, 188 Des Voeux Road Central, Hong Kong

CORPORATE INFORMATION

Audit Committee Mr. Wu Liansheng (吳聯生) (*Chairman*)
Mr. Ngan King Leung (顏勁良)
Mr. Tu Zheng (屠錚)

Remuneration Committee Mr. Zhang Jianjun (張建君) (*Chairman*)
Mr. Wu Liansheng (吳聯生)
Mr. Wang Ning (王寧)

Nomination Committee Mr. Wang Ning (王寧) (*Chairman*)
Mr. Zhang Jianjun (張建君)
Mr. Wu Liansheng (吳聯生)

[REDACTED]

Compliance Adviser **Guotai Junan Capital Limited**
27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Principal Banks **Industrial and Commercial Bank of China Limited**
(Zhu Shi Kou Branch)
No. 15, East Street, Zhushikou,
Chongwen District, Beijing

Bank of Communications Co., Ltd.
(Wang Jing Branch)
Wangjing International Commerce Center,
No. 9, Wangjing Street, Chaoyang District, Beijing

China Minsheng Banking Corp., Ltd.
(Wang Jing Branch)
Botai International, Block B, Building 122,
District 1, Nanhu East Park, Guangshun North Street,
Chaoyang District, Beijing

REGULATION

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

REGULATIONS ON OFFLINE BUSINESS

Regulations on Toys Retail

Regulations on Purchase Contract

Pursuant to the Contract Law of the People's Republic of China (《中華人民共和國合同法》), 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.15 on March 15, 1999 and became effective on October 1, 1999, 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 requests to return the subject matter or terminate the contract in accordance with PRC applicable laws, the seller shall bear the risk of return of the payment to buyer and liquidation damages to the subject matter. The seller shall deliver the subject matter according to the agreed quality requirements. In case that the seller provides the quality specifications concerning the subject matter, the delivered subject matter shall comply with the quality requirements in such specifications. If the terms in relation to quality are not met, the liability for breach of contract shall be borne by the seller in accordance with the agreement between the parties.

Regulations on Pricing

According to the Pricing Law of the People's Republic of China (《中華人民共和國價格法》), promulgated by the Standing Committee of National People's Congress of the PRC (the "SCNPC", 全國人大常委會) 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

REGULATION

illegal gains thereof shall be confiscated, a fine not more than five times the illegal gains may be imposed on such Operator; if there are no illegal gains, such Operator shall be given a warning and may also be fined; if the circumstances are serious, such Operator shall be ordered to suspend the business for rectification, or have the business license thereof revoked by the administrative department for industry and commerce, or should such illegitimate price acts be otherwise subject to any penalties or punitive orders under other relevant PRC applicable laws, such laws shall also apply and business operators shall abide by such laws.

Regulations on Consumer Protection

The Law of the PRC on the Protection of Consumer Rights and Interests (the "**PRC Consumer Protection Law**"), as passed by the SCNPC on October 31, 1993 and last amended on October 25, 2013 contains the code of conduct for business operators when dealing with consumers, including but not limited to: (i) the goods and services shall comply with the Product Quality Law and other relevant laws and regulations; (ii) accurate information about the goods and services and the quality and use of such goods and services; (iii) issue invoice shopping vouchers or service documents to consumers in accordance with relevant national regulations, business practices or at the request of consumers; (iv) ensure that the actual quality and function of the goods or services are consistent with the quality of the goods or services indicated by advertising data, product descriptions, samples or other means; (v) assume responsibility for repair, replacement, refund or other liability under national regulations or any agreement with consumers; and (vi) not to create terms that are unreasonable or unfair to consumers, or exempt themselves from civil liability when they damage consumers' legitimate rights and interests.

Regulations on Products Quality and Liability

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

REGULATION

According to the Tort Law of the People's Republic of China (《中華人民共和國侵權責任法》), which was promulgated by the SCNPC on December 26, 2009 and became effective on July 1, 2010, manufacturers shall be responsible for compensating the damages of the person or property caused by the defect of products. Sellers shall be responsible for compensation if the damages to the property or person are caused by defects resulting from the fault of sellers. If the seller is unable to name the manufacturer or supplier of the defective product, the seller shall bear tort liability. The injured person may demand indemnification from the manufacturer of the product or from the seller of the product. If the defect in the product is caused by the manufacturer, the seller shall have the right, after paying indemnification, to recover the same from the manufacturer. If the defect in the product is caused by the fault of the seller, the manufacturer shall have the right, after paying indemnification, to recover the same from the seller. Where any defect of a product is discovered after the product is put into circulation, the manufacturer or seller shall take such remedial measures as warning and recall in a timely manner, otherwise any failure to react timely or sufficiently that concurrently causes damages shall subject such manufacturer or seller to tort liabilities. However, where a manufacturer or seller is aware of any defect of a product but knowingly refuses to terminate its operation activities, severely jeopardizing the life and health of any another person, such person or its successor suffering such tort shall be entitled to punitive damages or other indemnifications to the extent permitted by laws.

Regulations on Unfair Competition

The Anti-Unfair Competition Law of the People's Republic of China (2019 Amendment) (the "**PRC Anti-Unfair Competition Law**", 《中華人民共和國反不正當競爭法》(2019修正)), which was promulgated by the SCNPC on September 2, 1993, and last amended and became effective on April 23, 2019, prohibits Business Operators from performing unfair competitions. According to the PRC Anti-Unfair Competition Law, Business Operators shall not perform any confusing acts that will enable people to mistake its products for another business's products or believe certain relations exist between its products and any business's products, such as unauthorized use of a mark that is identical or similar to the name, packaging or decoration of another business's commodity, which has influence to a certain extent; unauthorized use of another business's corporate name (including its shortened name, trade name, etc.), the name of a social group (including its shortened name, etc.), or the name of an individual (including his or 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.

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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 (2018 Amendment) (《中華人民共和國廣告法》(2018修正)), promulgated by the SCNPC on October 27, 1994, and last amended and became effective on October 26, 2018, 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. Where false advertisements for products or services relating to the life and health of consumers cause damage to the consumers, the advertising agents, advertisement publishers or advertisement endorsers for such advertisements shall bear joint and several liabilities with the advertisers concerned. In case that the advertising agents, advertisement publishers or advertisement endorsers for advertisements other than those specified above still 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.

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Regulations on Import and Export of Goods

The Foreign Trade Law of the People's Republic of China (2016 Amendment) (the "**PRC Foreign Trade Law**", 《中華人民共和國對外貿易法》(2016修正)) was promulgated by the SCNPC on May 12, 1994, and last amended on November 7, 2016 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 any of 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.

The Foreign Trade Law and the Measures for the Archival Filing and Registration of Foreign Trade Operators (2019 Amendment) (《對外貿易經營者備案登記辦法》(2019修正)), promulgated by the Ministry of Commerce of the PRC (the "**MOFCOM**", 商務部) on June 25, 2004, and amended and became effective on November 30, 2019, require enterprises engaged in import or export of goods or technology to file and register with the relevant authorities in charge of foreign trade under the State Council unless otherwise provided by other laws, administrative regulations or by the relevant authorities in charge of foreign trade under the State Council, otherwise such goods or technology may be detained and remain undeclared at the competent custom authorities.

According to the Customs Law of the PRC (2017 Amendment) (《中華人民共和國海關法》(2017修正)) promulgated by the SCNPC on January 22, 1987 and last amended on November 4, 2017 and became effective on November 5, 2017, 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 a customs clearing enterprise to handle customs declaration formalities.

Regulations on the Import and Export of Toys

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

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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.

Regulations on Publications Retail

Pursuant to the Provisions on the Administration of the Publication Market (《出版物市場管理規定》), promulgated by the State Administration of Press, Publication, Radio, Film and Television of the PRC (國家新聞出版廣電總局) and the MOFCOM on May 31, 2016, and came into effect on June 1, 2016, the state applies a licensing system to the wholesale and retail of publications. The term "publications" means books, newspapers, periodicals, audio-visual products, and electronic publications, and the term "retail" means dealers' direct sale of publications to consumers. An entity or individual that conducts wholesale or retail activities shall obtain publication business permit prior to the conduct of publication wholesale or retail activities. Without approval, no entity or individual shall conduct publication wholesale or retail activities.

Regulations on Stores

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 formalities with the competent construction (real-estate) departments of the municipalities directly under the Central Government, cities and counties where the housing is located within 30 days after the housing tenancy contract is signed. Where the content of the housing tenancy registration is altered, or the housing tenancy contract is renewed or terminated, the parties concerned shall, within 30 days, go through housing tenancy registration amendment, renewal or termination formalities at the department which originally registered the housing tenancy. The competent construction (real estate) departments of the people's governments of the municipalities directly under the central government of the PRC, cities and counties shall urge those who do not register on time hereof to make corrections within a specified time limit, and shall impose a fine below RMB1,000 on individuals who fail to make corrections within the specified time limit, and a fine between RMB1,000 and RMB10,000 on institutions which fail to make corrections within the specified time limit, 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 (《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》).

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Regulations on Fire Prevention

The Fire Prevention Law of the PRC (2019 Amendment) (the “**PRC Fire Prevention Law**”, 《中華人民共和國消防法》(2019修正)) was promulgated by the SCNPC on April 29, 1998 and subsequently amended on October 28, 2008, and was last amended and became effective on April 23, 2019. According to the PRC Fire Prevention Law and other relevant laws and regulations of the PRC, the Emergency Administrative Department of the local people’s government at or above the county level shall supervise and administer the fire protection work within its administrative territory, and such supervision and administration shall be implemented by the fire protection division of the people’s government at the same level. For public assembly venue, the construction entity or entity using such venue shall, prior to use and operation of any business thereof, apply for a safety inspection on fire prevention with the relevant fire prevention department under the local government at or above the county level where the venue is located, and such place cannot be put into use and operation if it fails to pass the safety inspection on fire prevention or fails to conform to the safety requirements for fire prevention after such inspection. Those fail to comply with the foregoing provisions shall be ordered by the competent department of housing and urban-rural construction or fire prevention department in accordance with their respective powers to stop construction or use, or suspend production or business, and be imposed a fine of not less than RMB30,000 but not more than RMB300,000.

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

Regulations on Sanitation of the Public Assembly Venue

The Regulation on the Administration of Sanitation in Public Places (2019 Amendment) (《公共場所衛生管理條例》(2019修正)) was promulgated by the State Council (國務院) on April 1, 1987, and was last amended and became effective on April 23, 2019. The Detailed Rules for the Implementation of the Regulation on the Administration of Sanitation in Public Places (2017 Amendment) (《公共場所衛生管理條例實施細則》(2017修正)) was promulgated by the Ministry of Health (衛生部) on March 10, 2011, and was last amended by the National Health and Family Planning Commission (國家衛生和計劃生育委員會) and became effective on December 26, 2017. The said regulations adopt ‘Sanitary License’ system to all public places except gardens, stadiums and transportation tools, according to which shopping malls (stores) and restaurants are required to obtain a public assembly venue sanitary license from the local health authority at or above the county level after it applies for a business license to operate its business.

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Regulations on Sale of Food and Beverage

According to the Food Safety Law of the People's Republic of China (2018 Amendment) (the "**PRC Food Safety Law**", 《中華人民共和國食品安全法》(2018修正)) which was promulgated by SCNPC on February 28, 2009 and subsequently amended on April 24, 2015 and December 29, 2018, those intending to engage in the production or sale of food or the catering services shall legally obtain a permit. The production of food-related products shall comply with laws, regulations, and national food safety standards. The production of food-related products with a relatively high risk such as packing materials that directly contact food shall be subject to production licensing in accordance with the relevant state provisions on the administration of production licenses for industrial products. Any entity engaging in food production or sale without food operation permit may be subject to confiscation of illegal gains, commodities and other assets, or fines ranging from RMB50,000 to 100,000 if the value of the food sold is less than RMB10,000 and fines ranging from ten times to twenty times of that value if the value exceeds RMB10,000. Consumers or parties who suffer injuries or property losses due to such illegally manufactured or sold food, 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 Auction

Pursuant to the Auction Law of the People's Republic of China (2015 Amendment) (the "**PRC Auction Law**", 《中華人民共和國拍賣法》(2015修正)) promulgated by the SCNPC on July 5, 1996 and last amended on April 24, 2015, and Measures for the Administration of Auctions (2015 Amendment) (《拍賣管理辦法》(2015修正)) promulgated by the MOFCOM on October 28, 2015, an enterprise engaging in the bidding and auction of various products as permitted by auction-related laws of the PRC other than cultural relics shall satisfy various criteria, such as having registered capital of at least RMB1 million and having sufficient number of professionals among whom at least one should be the auction master. The auction activities shall be carried out by the auction master with qualification certificate. To engage in the bidding and auction business, domestic auctioneers shall first be verified and authorized by the auction administration department of the province, autonomous region, or municipality directly under the Central Government where the enterprise is located, while the foreign-invested auctioneers, whose business does not involve auction of cultural relics, shall directly register with the local counterparts of the SAMR and make after-registration filing with competent local counterparts of MOFCOM, and also obtain auction business permit from the competent local counterparts of MOFCOM before the operation of their auction business. The enterprise engaging in auction business without approval and registration shall be banned by the administrative department for industry and commerce, the illegal gains shall be confiscated and he may also be fined not less than one time and not more than five times the amount of the illegal gains.

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REGULATIONS ON INTELLECTUAL PROPERTY

Regulations on Copyright and Computer Software

China is a signatory to some major international conventions on protection of copyright and became a member of the Berne Convention for the Protection of Literary and Artistic Works in October, 1992, the Universal Copyright Convention in October, 1992, and the Agreement on Trade-Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001. The Copyright Law of the People's Republic of China (2010 Amendment) (the "**PRC Copyright Law**", 《中國人民共和國著作權法》(2010修正)), which was promulgated by the SCNPC on September 7, 1990, as amended on October 27, 2001 and last amended on February 26, 2010, and became effective on April 1, 2010, provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The purpose of the PRC Copyright Law is to encourage the creation and dissemination of works which is beneficial to the construction of socialist spiritual civilization and material civilization and promote the development and prosperity of Chinese culture. Unless otherwise stipulated in the PRC Copyright Law, anyone that wishes to use another's work shall conclude a licensing contract with the copyright owner of the work. A licensing contract shall include: the type(s) of right(s) being licensed; whether the license is exclusive or non-exclusive; the geographic scope and term of the license; the amount and method of remuneration; liability for breach of contract; and other details which the parties consider necessary. Where the right licensed is an exclusive licensing right, the contracts shall be made in writing, except in cases where works are to be published by newspapers and periodicals according to the Implementing Regulations of the Copyright Law of the People's Republic of China (2013 Revision) (《中華人民共和國著作權法實施條例》(2013修訂)), which was promulgated by State Council on August 2, 2002, last amended on January 30, 2013 and became effective on May 1, 2013. Any person, who concludes an exclusive licensing contract or assignment contract with a copyright owner, may submit, for filing, the contractual documents to the copyright administrative department.

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

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Provisions of the Supreme People's Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks (《最高人民法院關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定》), which became effective on January 1, 2013, provide that any network user or network service supplier provides without permission works, performance, sound or visual recordings to which the right holder has information network transmission right, the people's courts shall hold that said user or service supplier has infringed upon the information network transmission right, unless otherwise provided for by laws and administrative regulations.

Regulations on Trademark

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

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

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Regulations on Patent

According to the Patent Law of the People's Republic of China (2008 Amendment) (the "**PRC Patent Law**", 《中華人民共和國專利法》(2008修正)), promulgated by the SCNPC on May 12, 1984, and last amended on December 27, 2008, and became effective on October 1, 2009, and the Rules for the Implementation of the Patent Law of the PRC (2010 Revision) (《中華人民共和國專利法實施細則》(2010修訂)) promulgated by the State Council on June 15, 2001, last amended on January 9 2010 and became effective on February 1, 2010, the patent administrative department under the State Council is responsible for administration of patent-related work nationwide. The patent administration departments of province or autonomous regions or municipal governments are responsible for administering patents within their respective jurisdictions. The PRC Patent Law and its implementation rules divide patents into three types, "invention", "utility model" and "design". Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, from the date of application. The patentee shall pay an annual fee commencing from the year in which the patent right is granted. The PRC patent system adopts a "first come, first file" principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

Regulations on Domain Name

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

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Regulations on Trade Secrets

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

REGULATIONS ON ONLINE BUSINESS

Regulations on Value-added Telecommunications Services

The Telecommunications Regulations of the People's Republic of China (2016 Revision) (the "**Telecommunications Regulations**", 《中華人民共和國電信條例》(2016修訂)), promulgated by the State Council (國務院) on September 25, 2000, as amended on July 29, 2014, and last amended and became effective on February 6, 2016, provide a regulatory framework for telecommunications services providers in the PRC. The Telecommunications Regulations categorize telecommunications services into basic telecommunications services and value-added telecommunications services. The Telecommunications Regulations require that telecommunications services providers shall obtain the operating license prior to the commencement of operations. According to the Catalogue of Telecommunications Business (2015 Edition) (《電信業務分類目錄》(2015年版)), promulgated by the Ministry of Information Industry (the "**MII**", which is the predecessor of the MIIT, 信息產業部) on December 28, 2015, as amended by the MIIT on June 6, 2019, Information Provided via Network services and Electronic Data Interchange services are Value-added Telecommunications Services.

The Administrative Measures on Internet Information Services (2011 Revision) (the "**Internet Measures**", 《互聯網信息服務管理辦法》(2011修訂)), which was promulgated by the State Council on September 25, 2000, as amended and became effective on January 8, 2011, set out guidelines on the provision of internet information services. The Internet Measures classified internet information services into commercial internet information services and non-commercial internet information services. A commercial internet information services provider shall obtain an ICP License from the competent telecommunications authorities.

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According to the Measures for the Administration of Telecommunications Business Licensing (2017 Revision) (the "**Telecommunications Measures**", 《電信業務經營許可管理辦法》(2017修訂), which was promulgated by the MIIT on July 3, 2017 and became effective on September 1, 2017, a commercial Operator of value-added telecommunications services must obtain the Value-added Telecommunications Operating License from the MIIT or its provincial level counterparts. Telecommunications Operators shall conduct telecommunications business according to the types of telecommunications business and within the scope of business as specified in the operating license in accordance with the provisions of the operating license. Moreover, Telecommunications Operators holding the Telecommunication Operating License shall annually submit the relevant information to the permit-issuing authority through the official platform in the first quarter of each year. Where the Telecommunications Operators conduct telecommunications business without authorization and conduct telecommunications business beyond the scope of business, the illegal income shall be confiscated by the State Council's department in charge of the information industry or the telecommunications administration authority of the province, autonomous region or municipality directly under the central government, and a fine of not less than three times and not more than five times the illegal incomes shall be imposed; if there is no illegal income or if the illegal income is less than RMB50,000, a fine of not less than RMB100,000 and not more than RMB1 million shall be imposed; if the case is serious, the Operators shall be ordered to suspend operations and undergo rectification.

Regulations on Online Trading and E-Commerce

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

In accordance with the Administrative Measures for Online Trading (the "**Online Trading Measures**", 《網絡交易管理辦法》), promulgated by the SAMR on January 26, 2014, which came into effect on March 15, 2014, 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 Online Trading Measures. Persons engaged in operation of online goods trading ("**Online Trading Operators**") are required to make an industrial and commercial registration in accordance with laws. In

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selling goods or providing services to consumers, Online Trading Operators must observe the PRC Consumer Protection Law, the PRC Product Quality Law, and provisions of other laws, regulations and rules. Online Trading Operators must not infringe other Operators' lawful rights and interests by unfair competition, disturb social and economic order, or engage in any of the following unfair competition activities by using internet technology, media or other means:

- (1) using unique domain name, name and/or logo of famous website without authorization, or using any domain name, name and/or logo that are analogous to those of a famous website and confusing with other famous website, and cause mistakes by consumers;
- (2) using or forging electronic sign or logo of governmental authorities or social organisation without authorization, creating misleading and false publicity;
- (3) conducting sales which carry a chance to win a lottery with any virtual goods as the prize, and the value of such virtual goods agreed on the network market exceeds the maximum amount permitted by laws;
- (4) improving business reputation or credit standing (either for itself or for others) through fictitious transactions, removing negative comments or otherwise;
- (5) damaging competitors' business reputation or credit standing through malicious comments contrary to the facts after conclusion of a transaction; and
- (6) other unfair competition activities as defined by laws and regulations.

According to the Online Trading Measures, when selling goods or providing services to consumers, Online Trading Operators must state information such as the business address, contact information, quantity and quality, price or expense, performance period and means, payment method and return or placement method of goods or services, safety precautions, risk warning, civil liabilities and so on. Online Trading Operators must also take safety guarantee measures to ensure the safety of transactions and must provide such goods or services as promised. Where an Online Trading Operator sells goods, the consumer is entitled to return the goods within seven days from the date of receiving of the goods without giving a reason, except for the following:

- (1) customized goods;
- (2) fresh and perishable goods;
- (3) audiovisual products downloaded online or unpackaged by consumers and computer software and other digital commodities; and
- (4) newspapers and journals that have been delivered.

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Save for the goods listed in the preceding paragraph, the right of the consumer to return the goods within a specified period without reasons does not apply to those goods which the consumer confirmed as not suitable for return given their nature at the time of purchase.

Goods must be returned in good condition by consumers. Online Trading Operators shall, within seven days upon receipt of the returned goods, refund the price paid by consumers for relevant goods. Freight for the returned goods shall be borne by the consumers but where the online Operators and the consumers reach an agreement separately, such agreement will prevail.

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 (the “**APP Provisions**”, 《移動互聯網應用程序信息服務管理規定》), 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 became effective on August 1, 2016. According to the APP Provisions, the APPs information service providers shall implement their information security management responsibilities strictly and fulfil their certain obligations, including but not limited to certify the identification information of the registered users with their mobile telephone number based information under the principle of “real name at backstage, freely-chosen name on stage”, establish and perfect the mechanism for the protection of users’ information, safeguard users’ right to know and to make choices when users are installing or using such applications, respect and protect the intellectual properties and record the users’ log information and keep the same for 60 days.

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

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Regulations on Information Security and Privacy Protection

The Administration Measures on the Security Protection of Computer Information Network with International Connections (2011 Revision) (《計算機信息網絡國際聯網安全保護管理辦法》(2011修訂)), promulgated by the Ministry of Public Security (公安部) on December 16, 1997, as amended by the State Council and became effective on January 8, 2011, prohibit using the internet which could threaten national security, cause leakage state secrets, impair state, public or collective interests or the lawful rights of citizens or commit a criminal crime. If the internet Operators do not fulfil the responsibilities stipulated in measures, the relevant Telecommunications Operating License may be revoked and the websites shall be shut down, while a fine not more than RMB15,000 shall be imposed to the unit.

On November 7, 2016, the SCNPC promulgated the Cyber Security Law, which became effective on June 1, 2017. Pursuant to the PRC Cyber Security Law, network Operators shall comply with laws and regulations and fulfil their obligations to safeguard security of the network when conducting business and providing services. Those who provide services through networks shall take technical measures and other necessary measures in accordance with laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities and maintain the integrity, confidentiality and usability of network data, the network Operator shall not collect the personal information irrelevant to the services it provides or collect or use the personal information in violation of the provisions of laws or agreements between both parties, and network Operators of key information infrastructure shall store all the personal information and important data collected and produced within the territory of PRC. Their purchases of network products and services that may affect national security shall be subject to national cyber security review. The network Operators who violate the aforesaid regulations may be ordered by the competent authority to make corrections, be given a warning, or be imposed a fine with different amounts.

On December 28, 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》) to enhance the legal protection of information security and privacy on the internet. The Network Services providers shall strengthen the management of the information published by their users, and shall immediately cease transmitting any information forbidden to be published or transmitted by the laws and regulations, take such measures as elimination, preserve relevant records, and report the same to relevant competent departments. On July 16, 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》), which became effective on September 1, 2013, to regulate the collection and use of personal information of users in the provision of telecommunication service and internet information service in the PRC. The personal information of users collected or used in the course of provision of service by the telecommunication Business Operators, internet information service providers and their personnel shall be kept in strict confidence, and may not be divulged, tampered with or damaged, and may not be sold or illegally provided to others.

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On December 29, 2011, the MIIT promulgated the Several Provisions on Regulation of the Order of Internet Information Service Market (the "**Internet Information Service Market Provisions**", 《規範互聯網信息服務市場秩序若干規定》), which became effective on March 15, 2012. The Internet Information Service Market Provisions stipulate that without the consent of users, Internet information service providers shall not collect information relevant to the users that can lead to the recognition of the identity of the users independently or in combination with other information (hereinafter referred to as "personal information of users"), nor shall they provide personal information of users to others, unless otherwise provided by laws and administrative regulations. The Internet Information Service Market Provisions also require that internet information service providers shall properly preserve the personal information of users. If Internet information service providers violate the foregoing regulations, the telecommunications management department shall issue a warning, and may also impose a fine of not less than RMB10,000 but not more than RMB30,000, and announce to the public.

REGULATIONS ON EXHIBITION

The State Council promulgated the Regulations on Security Administration of Large-Scale Mass Activities (《大型群眾性活動安全管理條例》) on September 14, 2007, and it became effective on October 1, 2007. When legal persons or other organizations (the "**Organizer(s)**") organize exhibition and spot sale for the public with the participants expected to reach 1,000 or more, the Organizer shall prepare its safety work plan. The security work plan for large-scale mass activities includes the following contents: time, place, content and organization of the activities; quantity, task assignment and identification mark of security personnel; fire-fighting measures of the sites; the containable personnel number of the sites and predicted participants; setup of security buffer and its identification; ticket and certificate inspection for admission personnel and security inspection measures; vehicle parking and evacuation measures; spot order maintenance, personnel evacuation measures; and emergency rescue program.

Where the expected number of participants of the exhibition or the spot sale is larger than 1,000 but lower than 5,000, the safety permit shall be implemented by the local public security authority of the people's government at the county level; for the expected number of participants over 5,000, the safety permit shall be implemented by the local public security authority of the people's government of the city with districts or municipality; in case the exhibition or the spot sale crosses provinces, autonomous regions or municipalities, the security permit shall be implemented by the public security department of the State Council. The Organizers shall apply for security permit 20 days before the date when the activity is held, and shall submit the following materials when making the application: certificates for the legal establishment of the organizers and identity proofs of the personnel in charge of safety; programs and instructions of a large-scale mass activity, as well as the agreement on joint holding of the activity in case of two organizers or more; safety work programs of a large-scale mass activity; and certificates of the activity site managers' agreement to provide the places for activities. The organizers shall also submit to the relevant competent governmental authorities the evidential materials of their capabilities or qualifications with regard to a large-scale mass activity pursuant to the law and administrative regulations.

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If the Organizers, without authorization, change the time, location or content of a large-scale mass activity or expand the scale of the large-scale mass activity, a fine of more than RMB10,000 but less than RMB50,000 shall be imposed; and the illegal incomes shall be confiscated if any. The large-scale mass activity without the security permit of the public security authorities shall be banned and the organizers shall be liable to a fine of more than RMB100,000 but less than RMB300,000.

Pursuant to the Measures for the Intellectual Property Protection at Exhibitions (《展會知識產權保護辦法》), promulgated by the MOFCOM, the SAMR, the State Bureau of Copyright (國家版權局) and the State Intellectual Property Office (國家知識產權局) on January 13, 2006 and came into force on March 1, 2006, the Exhibition Organizers shall safeguard the lawful rights and interests of intellectual property owners in accordance with the law, which includes the patents, the trademarks and the copyrights. Where the organizer fails to make due efforts in protecting the intellectual property protection in the exhibition, the exhibition administrative authority shall give a warning to the organizer and shall disapprove its subsequent application for organizing a related exhibition in the light of the circumstances.

In accordance with the Notice on Strengthening the Management of Hosting Foreign Economic and Technological Exhibitions in PRC of the State Council (《國務院辦公廳關於對在我國境內舉辦對外經濟技術展覽會加強管理的通知》) which took effect on July 31, 1997, and Provisional Administrative Methods on Hosting Foreign Economic and Technological Exhibitions in PRC (《在境內舉辦對外經濟技術展覽會管理暫行辦法》) which became effective from October 1, 1998, and the Notice on the Management Matters Regarding Hosting Economic and Technological Exhibitions in PRC (《關於在我國境內舉辦對外經濟技術展覽會有關管理事宜的通知》) which was issued by the General Administration of Customs and MOFCOM on February 19, 2004 and other applicable rules, a hierarchical approval procedure was introduced to foreign economic and technological exhibition with an exhibition area of more than 1,000 square meters. Foreign economic and technological exhibitions held in the name of the departments of the State Council or provincial government should be approved by the State Council. Foreign economic and technological exhibitions held in the name of the subordinate units of the departments of the State Council or foreign entity shall be approved by MOFCOM (for exhibitions held outside Beijing, pre-approval from local foreign economic and trade authorities shall be sought). Foreign economic and technological exhibitions on scientific research and technology exchange shall be approved by the Ministry of Science and Technology (科學技術部). Foreign economic and technological exhibitions held by the subordinates of China Council for the Promotion of International Trade shall be approved by the China Council for the Promotion of International Trade and filed with MOFCOM. For those exhibitions with exhibition area of less than 1,000 square meters, the organizers shall file with relevant authorities for record. According to Decision of the State Council to Cancel and Delegate to Lower-level Authorities a Group of Administrative Licensing Items (《國務院關於取消和下放一批行政許可事項的決定》) which was issued by the State Council on February 27, 2019, the four types of foreign economic and technological exhibitions (exhibitions that are sponsored again and have the approved title of "China" and other words; exhibitions held for the first time and titled with "China" and other words, exhibitions sponsored by departments under the State Council, central enterprises or national trade associations; exhibitions having a period

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of over six months; exhibitions sponsored by organizations from Hong Kong, Macao and Taiwan (including economic and technological exhibitions across the Taiwan straits) shall be subject to recordation and the two types of foreign economic and technological exhibitions (exhibitions held for the first time and titled with "China" and other words, exhibitions co-sponsored by foreign institutions) shall remain approved by relevant authorities.

REGULATIONS ON FOREIGN INVESTMENT

Restrictions on Foreign Investment

Retail Industry

Pursuant to the Catalogue of Industries for Encouraged Foreign Investment (2019 Edition) (the "**Catalogue**",《鼓勵外商投資產業目錄》(2019版)), and the Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition) (the "**Negative List**",《外商投資准入特別管理措施(負面清單)(2019年版)》), both promulgated jointly by the MOFCOM and the National Development and Reform Commission (the "**NDRC**", 國家發展和改革委員會) on June 30, 2019 and became effective on July 30, 2019, retail, publications and launch of toys are permitted on foreign investment.

Value-added Telecommunications Services

Pursuant to the Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (the "**MII Notice**",《信息產業部關於加強外商投資經營增值電信業務管理的通知》), issued by the MII and became effective on July 13, 2006, domestic value-added telecommunications enterprises were prohibited to rent, transfer or sell value-added telecommunications business operation licenses to foreign investors in any form, or provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any value-added telecommunications business in the PRC. In addition, according to the MII Notice, the internet domain names and registered trademarks used by a foreign-invested value-added telecommunications services Operator shall be legally owned by such Operator or its shareholder.

According to the Negative List and the Catalogue, a restriction of 50% is imposed on foreign ownership of equity interest in value-added telecommunications services (except for the operation of e-commerce business, domestic multi-party communication services, store-and-forward-type services and call center services).

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The Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (2016 Revision) (《外商投資電信企業管理規定》(2016修訂)), promulgated by the State Council on December 11, 2001, as amended on September 10, 2008 and February 6, 2016, require the foreign investors to establish sino-foreign joint ventures in order to provide value-added telecommunications services in the PRC and the foreign investors may acquire up to 50% of the equity interests of the joint venture. The main foreign investor, i.e. the major foreign investor among all the foreign investors investing in a value-added telecommunications enterprise in the PRC, shall demonstrate a good track record and experiences in operating value-added telecommunications business. Foreign investors that meet these requirements shall obtain approvals from the MIIT and the MOFCOM, or their local counterparts, which retain considerable discretion in granting approvals, prior to the commencement of operation of value-added telecommunications business in the PRC. According to the Notice on Removing the Restrictions on Foreign Shareholding Ratio in Online Data Processing and Transaction Processing (Operational E-commerce) Business (《關於放開在線數據處理與交易處理業務(經營類電子商務)外資股比限制的通告》) promulgated by the MIIT and became effective on June 19, 2015, foreign investors are allowed to hold up to 100% of equity interest in the online data processing and transaction processing (operational e-commerce) business in China. If a domestic company tends to convert to be a sino-foreign joint venture or a WFOE, it shall renew its telecommunications business operating license.

Internet Cultural Activities

According to the Interim Provisions on the Administration of Internet Culture (2017 Revision) (《互聯網文化管理暫行規定》(2017修訂)), promulgated by the Ministry of Culture on February 11, 2011, and last amended and became effective on December 15, 2017, and the Notice of the General Office of the Ministry of Culture on the Decentralized Examination and Approval of the Administrative License for the Operational Internet Culture Unit (《文化部辦公廳關於下放經營性互聯網文化單位行政許可審批工作的通知》), came into effect on July 30, 2010, the Cultural Administrative Departments of the people's governments of the provinces, autonomous regions and municipalities directly under the Central Government shall examine the entities that apply for engaging in commercial Internet cultural activities, and make archival filing on the entities that engage in non-commercial Internet cultural activities. The production, reproduction, import, release, broadcast, exhibitions and competitions of Internet cultural products are included in the term "Internet cultural activities". Commercial Internet cultural activities refer to the profit-making activities of providing Internet cultural products and services by charging fees from Internet users or by electronic commerce, advertisement, financial supports, etc. Where a cultural product supplied by an Internet cultural entity infringes upon the lawful rights and interests of a citizen, legal person or any other organization, the Internet cultural entity shall bear civil liabilities in accordance with the law. Whoever engages in operational Internet cultural activities without approval shall be ordered to cease commercial Internet cultural activities, given a warning and imposed a fine of not more than RMB30,000 on it; where it refuses to stop its business operations, it shall be blacklisted in the culture market in accordance with the law, and given a credit-related punishment.

According to the Negative List and the Catalogue, foreign investors are prohibited from investing in Internet cultural activities (except music).

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The PRC Foreign Investment Law

The principal laws and regulations governing foreign invested companies in the PRC was the Wholly Foreign-owned Enterprise Law of the People's Republic of China (2016 Amendment) (the "**PRC Wholly Foreign-owned Enterprise Law**", 《中華人民共和國外資企業法》(2016修正)) and its Implementation Regulations (2014 Revision) (《中華人民共和國外資企業法實施細則》(2014修訂)), the Equity Joint Venture Law of the People's Republic of China (2016 Amendment) (the "**PRC Equity Joint Venture Law**", 《中華人民共和國中外合資經營企業法》(2016修正)) and its Implementation Regulations (2019 Amendment) (《中華人民共和國中外合資經營企業法實施條例》(2019修正)), the Sino-Foreign Cooperative Joint Venture Law of the People's Republic of China (2017 Amendment) (the "**PRC Cooperative Joint Venture Law**", 《中華人民共和國中外合作經營企業法》(2017修正)) and its Implementation Regulations (2017 Amendment) (《中華人民共和國中外合作經營企業法實施細則》(2017修正)). All the aforementioned laws and regulations were abolished on January 1, 2020 and replaced by the Foreign Investment Law of the People's Republic of China (the "**PRC Foreign Investment Law**", 《中華人民共和國外商投資法》) and its Implementation Regulations (《中華人民共和國外商投資法實施條例》), which were adopted by the NPC and State Council respectively, and promulgated accordingly by the President Order No.26 on March 15, 2019 and State Council Order No. 723 on December 26, 2019, and became effective on January 1, 2020, foreign investment means the investing activities within China directly or indirectly conducted by foreign natural persons, enterprises, and other organizations (the "**foreign investors**"), including the following circumstance: a foreign investor acquires any shares, equities, portion of property, or other similar interest in an enterprise within China. The PRC applies the administrative system of pre-establishment national treatment plus negative list to foreign investment. Where a foreign investor invests in a field prohibited from investment by the Negative List, the competent department shall order cessation of investment activity, disposition of shares and assets or adoption of other necessary measures during a specified period, and restoration to the state before investment; and its illegal income, if any, shall be confiscated. Where the investment activity of a foreign investor violates any special administrative measure for restrictive access as set out in the Negative List, the appropriate department shall order the investor to take corrective action during a specified period and adopt necessary measures to meet the requirements of the special administrative measure. Where the investment activity of a foreign investor violates the Negative List, it shall be otherwise subject to corresponding legal liabilities under the applicable law.

According to Measures for Reporting of Information on Foreign Investment (《外商投資信息報告辦法》), promulgated by MOFCOM and State Administration for Market Regulation (國家市場監督管理總局) on December 30, 2019 and became effective on January 1, 2020, foreign investors or foreign-invested enterprises shall submit their investment information to the competent commerce authorities through the enterprise registration system and the National Enterprise Credit Information Publicity System. Market regulators shall push the aforesaid investment information submitted by foreign investors and foreign-invested enterprises to competent commerce authorities in a timely way. When submitting the initial report, a foreign investor shall submit the information including but not limited to basic enterprise information, the information on the investor, the actual controller thereof and

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investment transaction information. Where any information in the initial report changes, a foreign-invested enterprise shall submit the report of changes through the enterprise registration system. Where a foreign investor or a foreign-invested enterprise fails to submit the investment information as required, and fails to resubmit or correct such information after being notified by the competent commerce authority, the competent commerce authority shall order it to make corrections within 20 working days; in case that it fails to make corrections within the specified period, the competent commerce authority shall impose a fine of not less than RMB100,000 but not more than RMB300,000.

Regulations on M&A and Overseas Listings

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

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 (中國人民銀行) 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 SAFE 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

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financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of China. Generally, foreign invested enterprises may convert RMB into foreign currencies and remit them out of the PRC without the prior approval of the SAFE under the two following circumstances: (a) when an enterprise needs to settle current account items in foreign currencies; and (b) when an enterprise needs to distribute dividends to its foreign shareholders.

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

On February 13, 2015, the SAFE promulgated the Notice on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (the "**SAFE Circular 13**", 《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), effective from June 1, 2015, which cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. In addition, the SAFE Circular 13 simplifies the procedure of registration of foreign exchange and investors must register with banks to have the registration of foreign exchange under the condition of direct domestic investment and direct overseas investment.

Pursuant to the SAFE Circular 19, promulgated by the SAFE on March 30, 2015 and became effective on June 1, 2015, and the SAFE Circular 16, promulgated by the SAFE and became effective on June 9, 2016, the RMB fund from the settlement of foreign currency capital of a foreign-invested enterprise shall be used within the business scope as approved by relevant governmental authorities or the authorized commercial banks. Except foreign-invested real estate enterprises, no foreign invested enterprise shall use the RMB fund from the settlement of foreign currency capital to purchase domestic real estate for any purpose other than its own use. The RMB fund from the settlement of foreign currency capital shall not be used for any securities investment unless otherwise specifically provided for, and shall not be directly or indirectly used for granting the entrust loans in RMB (unless used for purposes within the scope of business), repaying the inter-enterprise borrowings (including advances by the third party) or the bank loans in RMB that have been sub-lent to the third party. Enterprises registered in China may also convert their foreign debts from foreign currency into RMB on self-discretionary basis. The SAFE Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign

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debts) on self-discretionary basis, which applies to all enterprises registered in China. The SAFE Circular 16 reiterates the principle that RMB converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within China unless otherwise specifically provided. In addition, the converted RMB may not be used to make loans for related enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

The SAFE Circular 37, which was promulgated by the SAFE on July 4, 2014 and became effective on the same date, provides that registration management for domestic resident's establishment of special purpose vehicle shall be carried out by the SAFE and its branches. In addition to the SAFE Circular 13, a domestic resident shall, before contributing the domestic and overseas lawful assets or interests to a special purpose vehicle, apply to the foreign exchange office or its authorized banks for going through the procedures for foreign exchange registration of overseas investments. A domestic resident contributing domestic lawful assets or interests shall apply to the foreign exchange office or its authorized banks of registration place, or the foreign exchange office or its authorized banks of location of the domestic enterprise's assets or interests for going through the procedures for registration; a domestic resident contributing overseas lawful assets or interests shall apply to the foreign exchange office or banks of registration place, or the foreign exchange office or banks of the location of household registration for going through the procedures for registration.

On December 25, 2006, the People's Bank of China promulgated the Administrative Measures for Individual Foreign Exchange (《個人外匯管理辦法》), which became effective on February 1, 2007. On February 15, 2012, the SAFE issued the SAFE Circular 7 which became effective on the date of issuance. Pursuant to the Stock Option Rules, and other applicable rules, PRC residents who are granted shares or stock options by companies listed on overseas stock exchanges according to the stock incentive plans are required to register with SAFE or its local branches, and PRC residents participating in the stock incentive plans of overseas listed companies shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct SAFE registration and other procedures with respect to the stock incentive plans on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests, and fund transfer. In addition, the PRC agents are required to amend SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, or the PRC agents or the overseas entrusted institution or other material changes. The PRC agents shall, on behalf of the PRC residents who have the right to exercise the employee share awards, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share awards. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted

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into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, the PRC agents shall file each quarter the form for record-filing of information of the Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies with SAFE or its local branches.

REGULATIONS ON OVERSEAS DIRECT INVESTMENT REGISTRATION

Pursuant to the Regulations on the Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions (《境內機構境外直接投資外匯管理規定》) issued by the SAFE on July 15, 2009 and took effect on August 1, 2009, upon obtaining approval for overseas investment, a PRC enterprise shall apply for foreign exchange registration for its overseas direct investments. According to the SAFE Circular 13, the administrative approval for foreign exchange registration approval under overseas direct investment has been canceled, and the banks are entitled to review and carry out foreign exchange registration under overseas direct investment directly. Pursuant to the Administrative Measures for Outbound Investment by Enterprises (《企業境外投資管理辦法》) promulgated by the NDRC on December 26, 2017 and took effect on March 1, 2018, the investing activities of PRC enterprises such as acquiring overseas ownerships, controlling rights, operating and management rights and other relevant interests by way of investing assets and interests or providing financing and guarantees to control its overseas enterprises, either directly or indirectly, are required to obtain approval or filing with the NDRC in accordance with the relevant conditions of the overseas investment projects. Outbound investment projects that involve sensitive countries and regions or sensitive industries shall be subject to administration of verification and approval by the NDRC and non-sensitive outbound investment projects shall be subject to administration by record-filing. For non-sensitive projects of US\$300 million or above invested by PRC local enterprise or carried out by overseas enterprises controlled by them, the investors shall filing with the NDRC and non-sensitive outbound investment projects, of which the investment amount of PRC investors is less than US\$300 million (exclusive) shall file with the provincial counterpart of the NDRC.

REGULATIONS ON EMPLOYMENT AND SOCIAL WELFARE

Regulations on Employment

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

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

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

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

The Employment Promotion Law of the People's Republic of China (2015 Amendment) (《中華人民共和國就業促進法》(2015修正)), which was promulgated by the SCNPC on August 30, 2007, amended and became effective on April 24, 2015, requires that individuals have equal employment opportunities, both in hiring and in employment terms, without discrimination on the basis of ethnicity, race, gender, religious belief, communicable disease or rural residence. Under this law, companies

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are also required to provide employees with vocational training. Administrative authorities at the county level or above are responsible for implementing policies to promote employment.

Social Insurance and Housing Fund

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

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In accordance with the Regulations on the Management of Housing Funds (2019 Revision) (《住房公積金管理條例》(2019修訂)) which was promulgated by the State Council on April 3, 1999, and lastly amended and became effective on March 24, 2019, enterprises must register at the competent managing center for housing funds and upon the examination by such managing center of housing funds, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner. If an enterprise does not go through the registration of housing fund payment or does not complete the procedures for the establishment of an account, the housing fund management center shall order it to make corrections within a time limit; If the corrections are not processed within the time limit, a fine of RMB10,000 to RMB50,000 shall be imposed. If the enterprise fails to pay or underpays the housing fund within the time limit, the housing fund management center shall order it to make a deposit within a time limit; if it fails to pay the deposit within the time limit, the people's court may be applied for enforcement.

REGULATIONS ON TAXATIONS

Regulations on Income Tax

On March 16, 2007, the SCNPC promulgated the Law of the People's Republic of China on Enterprise Income Tax (2018 Amendment) (《中華人民共和國企業所得稅法》(2018修正)) which was last amended and became effective on December 29, 2018, and on December 6, 2007, the State Council enacted The Regulations for the Implementation of the Law on Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》) (collectively, the "EIT Laws"), which came into force on January 1, 2008. According to the EIT Laws, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered within China. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside China, but have established institutions or premises in China, or have no such established institutions or premises but have income generated from China. Under the EIT Laws and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in China, or if they have formed permanent establishment institutions or premises in China but there is no actual relationship between the relevant income derived in China and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside China. The EIT Laws provide that an income tax rate of 10% will normally be applicable to dividends payable to investors that are "non-resident enterprises", and gains derived by such investors, which (i) do not have an establishment or place of business in China or (ii) have an establishment or place of business in China, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within China. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which non-PRC shareholders reside.

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

According to the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (《非居民納稅人享受稅收協定待遇管理辦法》) which were promulgated by the State Administration of Taxation (the "**SAT**") (國家稅務總局) on August 27, 2015 and became effective on November 1, 2015, and last amended and became effective on June 15, 2018, any non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities. The term "non-resident taxpayers" refers to the taxpayers other than the PRC tax residents under the Provisions of domestic tax laws or conventions on the avoidance of double taxation signed by the government of the PRC with foreign countries (including the tax arrangements signed with Hong Kong and the Macau Special Administrative Region (the "**Tax Conventions**") (including non-resident enterprises and non-resident individuals).

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

Regulations on Value-added Tax

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

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.

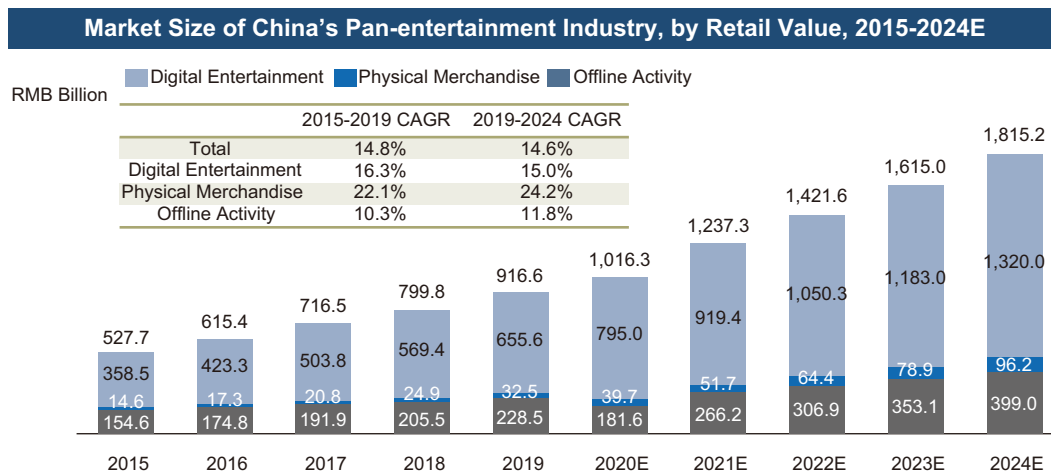
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OVERVIEW AND OUTLOOK OF CHINA'S PAN-ENTERTAINMENT MARKET

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

INDUSTRY OVERVIEW

POP TOY MARKET

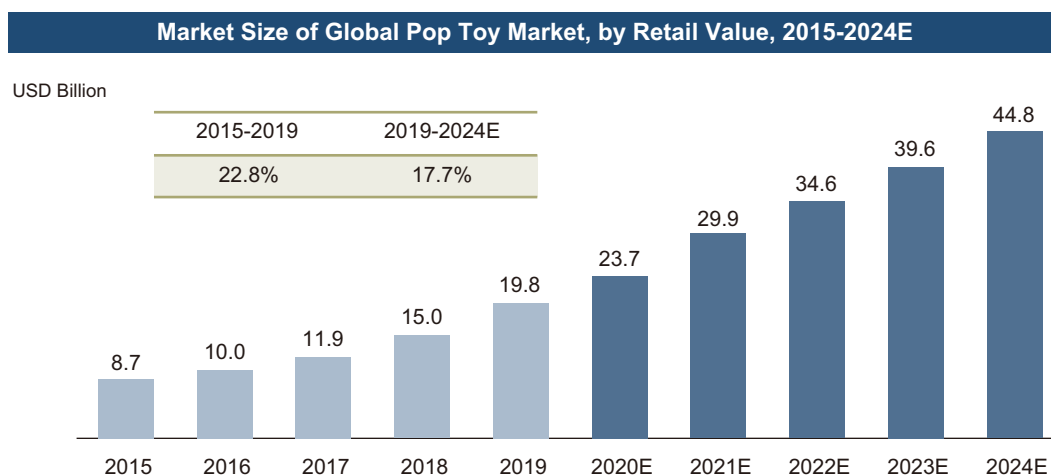
Overview

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:

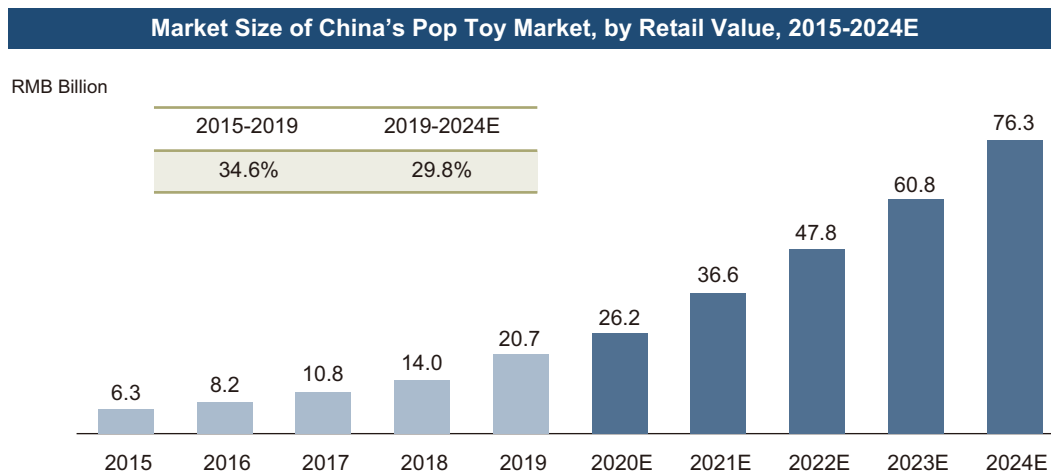


Source: Frost & Sullivan

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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

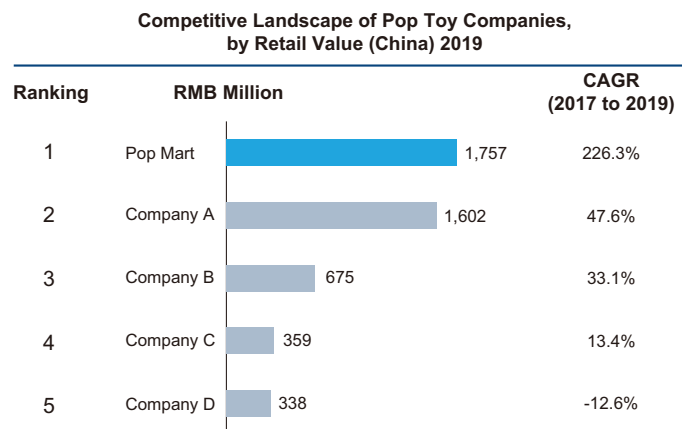
According to the Frost & Sullivan Report, the key growth drivers of China's pop toy retailing market include:

- ***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.

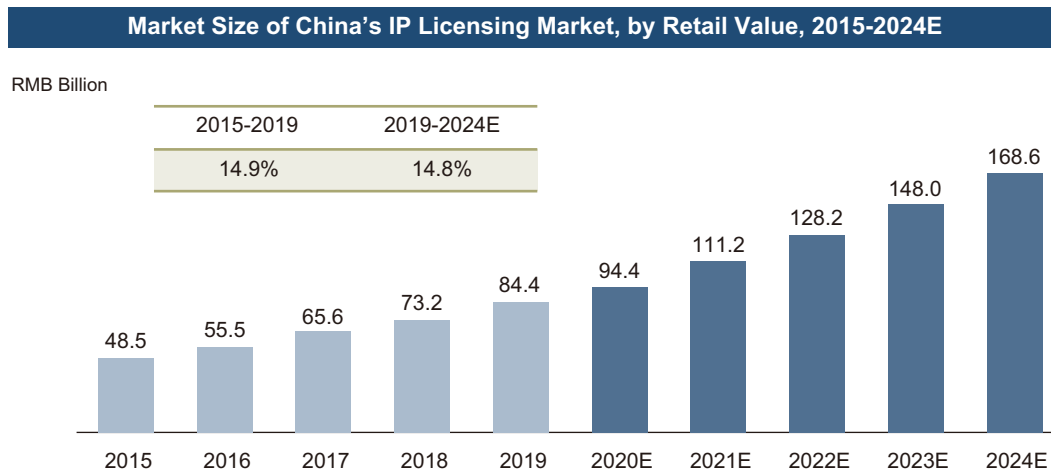
Successful IPs have significant commercial value extended well beyond their original formats. The market value of the top three IPs globally, as measured by cumulative business value, was US\$95.0 billion, US\$86.0 billion and US\$76.0 billion, respectively, in 2019, according to the Frost & Sullivan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

INDUSTRY OVERVIEW

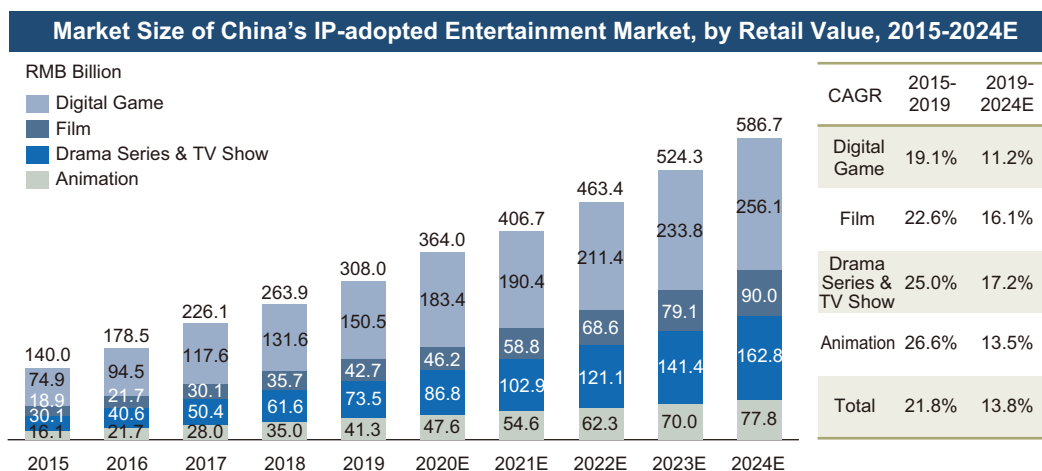
According to the Frost & Sullivan Report, IP licensing industry has huge growth opportunities in China. Driven by a continuous growing demands, the market size of China's IP licensing industry is expected to reach RMB168.6 billion by 2024, representing a CAGR of 14.8% from 2019. The following chart illustrates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

INDUSTRY OVERVIEW

- *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.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

OVERVIEW

We are the largest and fastest-growing pop toy company in China, in terms of revenue in 2019 and revenue growth from 2017 to 2019, respectively, according to the Frost & Sullivan Report. IP is at the core of our business. We have established an integrated platform covering the entire industry chain of pop toys, including artists development, IP operation, consumer access and pop toy culture promotion, through which we light up the passion of fans and bring them joy.

BUSINESS MILESTONES

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

<u>Year</u>	<u>Event</u>
2010	Beijing Pop Mart was established with the first retail store opened for business in EC Mall in Beijing, the PRC.
2014	Our first lifestyle concept flagship store (lifestyle 概念旗艦店) was opened in APM Shopping Mall in Beijing, the PRC.
2016	Our flagship store on Tmall commenced operation. We launched the "Paqu" mobile app, our own online pop toy community platform. We launched the "Molly Zodiac" blind box series, which was our first original pop toy product series.
2017	We launched our innovative cashier-less roboshops. We hosted the BTS, which was the first large-scale pop toy exhibition in the PRC.
2018	We hosted the STS, which was the largest-scaled pop toy event in Asia in terms of visits, according to Frost and Sullivan.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

<u>Year</u>	<u>Event</u>
2019	<p>Our sales on the day of the "Singles Day Shopping Festival" on our Tmall flagship store reached RMB8.2 million, ranking first in the "Models and Toys" category on Tmall.</p> <p>The number of our retail stores reached 100.</p> <p>The number of our roboshops reached 800.</p>

OUR MAJOR SUBSIDIARIES AND OPERATING ENTITIES

The principal business activities, date of establishment and date of commencement of business of each member of our Group that made a material contribution to our results of operations during the Track Record Period are shown below:

<u>Name of company</u>	<u>Principal business activities</u>	<u>Date of establishment and commencement of business</u>
Beijing Pop Mart	Design and sale of pop toys	October 20, 2010
Paqu Huyu	Internet technology services	March 8, 2016
Tianjin Pop Mart Cultural Communication Co., Ltd. (天津泡泡瑪特文化傳播有限公司)	Sale of pop toys	November 29, 2016
Pop Mart Hong Kong Limited	Overseas operations and sale of pop toys	January 27, 2017
Shanghai Paqu Commerce Co., Ltd. (上海葩趣貿易有限公司)	Sale of pop toys	September 21, 2017

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

ESTABLISHMENT AND DEVELOPMENT OF OUR GROUP

1. Establishment of Beijing Pop Mart

On October 20, 2010, Beijing Pop Mart, our principal operating entity in the PRC and the holding company of our Group prior to the Reorganization, was established as a company with limited liability in the PRC with Mr. Wang's own funds. Upon incorporation, Beijing Pop Mart had an initial registered capital of RMB500,000 held by Mr. Wang as the sole shareholder.

Mr. Wang, the chairman of the Board and the Chief Executive Officer of our Company, is the founder of Beijing Pop Mart and our Group. For details of the biography of Mr. Wang, see the section headed "Directors and Senior Management — Board of Directors — Executive Directors" of this Document.

2. Conversion of Beijing Pop Mart into a Joint Stock Company

On June 18, 2016, Beijing Pop Mart was converted from a company with limited liability to a joint stock company, in preparation for its listing on the NEEQ.

3. Shareholding Structure of Beijing Pop Mart prior to the NEEQ Listing

After the establishment of Beijing Pop Mart and prior to its listing on the NEEQ, Beijing Pop Mart underwent a series of capital injections and equity transfers, such that immediately before the listing of Beijing Pop Mart on the NEEQ on January 25, 2017, the shareholding structure of our Company was as set forth below:

Name of Shareholder	Registered Capital Subscribed to (RMB)	Shareholding Percentage
Mr. Wang	12,128,000	47.57%
Jinying International Trading Group (China) Ltd. (金鷹國際貿易集團(中國)有限公司) ⁽¹⁾	4,646,667	18.23%
Mr. Mai Gang ⁽²⁾	1,570,000	6.16%
Beijing Mochishan Venture Capital Management Centre (L.P.) (北京墨池山創業投資管理中心 (有限合夥)) ⁽¹⁾	1,200,600	4.71%
Beijing Pop Mart Investment Enterprise (L.P.) (北京泡泡瑪特投資企業(有限合夥)) ⁽³⁾	1,178,947	4.62%
Beijing Qifu Venture Capital Investment Centre (L.P.) (北京啟賦創業投資中心(有限合夥)) ⁽¹⁾	1,121,400	4.40%
Shanghai Huaqiang Shareholding Investment Management Ltd. (上海華強股權投資管理 有限公司) ⁽¹⁾	589,600	2.31%
Zhejiang Zhongying Holding Group (浙江中贏 股權投資基金管理有限公司) ⁽¹⁾	589,600	2.31%

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

Name of Shareholder	Registered Capital Subscribed to (RMB)	Shareholding Percentage
Beijing Jinhui Feng Beiyong Investment Enterprise (L.P.) (北京金慧豐倍盈投資企業(有限合夥)) ⁽¹⁾	533,333	2.09%
Guangzhou Qifu Jutong Chuangye Investment Partnership Enterprise (L.P.) (廣州市啓賦聚通創業投資合夥企業(有限合夥)) ⁽¹⁾	333,333	1.31%
Ningbo Jinhui Feng Taiying Investment Partnership Enterprise (L.P.) (寧波金慧豐泰盈投資合夥企業(有限合夥)) ⁽¹⁾	294,800	1.16%
Beijing Zhongqing Herui Chuangye Investment Partnership Enterprise (L.P.) (北京中青合睿創業投資合夥企業) ⁽¹⁾	266,667	1.05%
Beijing Fengbo Huixin Investment Centre (L.P.) (北京鳳博滙鑫投資中心(有限合夥)) ⁽¹⁾	266,667	1.05%
Zhuhai Hengqin Hexiang Chuangxin Investment Partnership (L.P.) (珠海橫琴合享創新投資合夥企業(有限合夥)) ⁽¹⁾	265,300	1.04%
Shenzhen Jingshe Technology Investment Partnership Enterprise (L.P.) (深圳市精舍科技投資合夥企業(有限合夥)) ⁽¹⁾	200,000	0.78%
Ningbo Meishan Bonded Port Rongkai Investment Partnership Enterprise (L.P.) (寧波梅山保稅港區願創投資合夥企業(有限合夥)) ⁽¹⁾	176,800	0.69%
Beijing Guorui Zhongqing Chuangye Investment Management Ltd. (北京國睿中青創業投資管理有限公司) ⁽¹⁾	133,333	0.52%
Total	25,495,047	100%

Notes:

- (1) These persons and entities are Independent Third Parties.
- (2) Mr. Mai Gang is a former director of Beijing Pop Mart and ceased to be a director in November 2018.
- (3) Beijing Pop Mart Investment Enterprise (L.P.) (北京泡泡瑪特投資企業(有限合夥)) is a limited partnership established in the PRC and controlled by Mr. Wang.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

4. Listing and Delisting of Beijing Pop Mart on the NEEQ

Listing of Beijing Pop Mart on NEEQ

On January 25, 2017, shares of Beijing Pop Mart was listed on the NEEQ under the stock code of 870578.

Compliance during Listing on NEEQ

Our Directors confirmed and our PRC legal adviser, having considered its due diligence, concurs that:

- (a) during the period in which Beijing Pop Mart was listed on the NEEQ,
 - (i) Beijing Pop Mart had been in compliance in all material respects with all applicable securities laws, including the Business Rules of the National Equities Exchange and Quotations System (for Trial Implementation) (全國中小企業股份轉讓系統業務規則(試行));
 - (ii) Beijing Pop Mart had not been subject to any disciplinary action by any relevant law enforcement authority or regulator; and
- (b) there are no further matters in relation to the prior listing of Beijing Pop Mart on the NEEQ that need to be brought to the attention of the Stock Exchange or our Shareholders.

Delisting of Beijing Pop Mart from the NEEQ

On March 21, 2019, the shareholders' resolution regarding the voluntary delisting of Beijing Pop Mart from the NEEQ (the "**NEEQ Delisting**") was passed at a shareholders' general meeting from all shareholders in aggregate holding 115,456,278 shares in Beijing Pop Mart, representing 100% of the then issued share capital of Beijing Pop Mart.

On March 29, 2019, Beijing Pop Mart received regulatory approval from the NEEQ for the NEEQ Delisting.

On April 2, 2019, the NEEQ Delisting was completed. Immediately before the completion of the NEEQ Delisting, Beijing Pop Mart had a market capitalization of RMB2.00 billion (equivalent to HK\$2.19 billion) based on the last transacted price of its shares of RMB17.32 per share, and the then outstanding number of its issued shares was 115,456,278 shares, as at the date immediately prior to its delisting from the NEEQ.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

Reasons of the Delisting of Beijing Pop Mart from the NEEQ and the [REDACTED] on the Stock Exchange

The NEEQ Delisting was a commercial and strategic decision made by Beijing Pop Mart's directors, based on the company's business development plans and desire to attain greater access to international [REDACTED] and markets by undertaking this proposed [REDACTED] and [REDACTED] on the Stock Exchange.

Our Directors believe that the NEEQ Delisting and the [REDACTED] on the Stock Exchange will be in the interests of our Group and the Shareholders as a whole since Hong Kong, being a gateway between the PRC and the international market, will allow our Group to have greater access to international [REDACTED] and global markets.

5. Establishment of Nanjing Golden Eagle Pop Mart

On April 29, 2014, Mr. Wang, Mr. Mai Gang and Beijing Mochishan Venture Capital Management Centre (L.P.), the then shareholders of Beijing Pop Mart, entered into an investment cooperation agreement ("**Investment Cooperation Agreement**") with Golden Eagle International Retail Group (China) Co., Ltd. ("**Golden Eagle International**"), a leading retail chain operator in China and a wholly-owned subsidiary of Golden Eagle Retail Group Limited which is a company listed on the Stock Exchange (stock code: 3308). Pursuant to the Investment Cooperation Agreement, Mr. Wang, Mr. Mai Gang, Beijing Mochishan Venture Capital Management Centre (L.P.) and Golden Eagle International agreed that Beijing Pop Mart and Golden Eagle International jointly established Nanjing Golden Eagle Pop Mart, a joint venture company incorporated in the PRC. The purpose of Nanjing Golden Eagle Pop Mart is to carry out exclusive cooperation in the areas as agreed between Beijing Pop Mart and Golden Eagle International and the wholesale and retail business of the products of Beijing Pop Mart.

Pursuant to the Investment Cooperation Agreement, the total capital commitment of Nanjing Golden Eagle Pop Mart was RMB10,000,000, of which Golden Eagle International invested RMB8,010,000 (representing 80.1% of the total capital commitment of Nanjing Golden Eagle Pop Mart), while Beijing Pop Mart invested RMB1,990,000 (representing 19.9% of the total capital commitment of Nanjing Golden Eagle Pop Mart). On August 2, 2015, Beijing Pop Mart and Golden Eagle International entered into a share transfer agreement, pursuant to which Golden Eagle International agreed to transfer 32.1% shares of Nanjing Golden Eagle Pop Mart to Beijing Pop Mart at a consideration of RMB6,936,500. Upon the completion of the shares transfer, Beijing Pop Mart and Golden Eagle International held 52% and 48% shares of Nanjing Golden Eagle Pop Mart, respectively. On August 20, 2015, Beijing Pop Mart and Golden Eagle International passed a resolution at the shareholders' general meeting of Nanjing Golden Eagle Pop Mart that the capital commitment of Nanjing Golden Eagle Pop Mart be increased to RMB20,000,000, of which Beijing Pop Mart and Golden Eagle International held 52% and 48% shares, respectively.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

Notes:

- (1) Tianjin Paqu Technology Centre (L.P.) (天津葩趣科技中心(有限合夥)) is a limited partnership established in the PRC, of which Mr. Wang is the general partner.
- (2) Suzhou Fengqiaojichu Venture Capital Partnership Enterprise (L.P.) (蘇州蜂巧霽初創業投資合夥企業(有限合夥)) has Suzhou Fengqiao Lizhi Venture Capital Partnership (L.P.) (蘇州蜂巧禮智創業投資合夥企業(有限合夥)) as the general partner. The general partner of Suzhou Fengqiao Lizhi Venture Capital Partnership (L.P.) is Shanghai Fengqiao Investment Management Co., Ltd. (上海峰巧投資管理有限公司), which is owned as to 83% by Mr. Tu Zheng, our non-executive Director.
- (3) Hangzhou Heiyi Investment Limited Partnership (Limited Partnership) (杭州黑蟻投資合夥企業(有限合夥)) has Shenzhen Qianhai Heiyi Innovation Investment Partnership (Limited Partnership) (深圳前海黑蟻創新投資合夥企業(有限合夥)) as the general partner. Shenzhen Qianhai Heiyi Innovation Investment Partnership (Limited Partnership) is owned as to 40% by Mr. He Yu, our non-executive Director.
- (4) Ningbo Meishan Bonded Port Rongkai Investment Partnership Enterprise (L.P.) (寧波梅山保稅港區榕凱股權投資合夥企業(有限合夥)) is an Independent Third Party.
- (5) Ningbo Huaqiang Ruizhe Investment Partnership Enterprise (L.P.) (寧波華強睿哲投資合夥企業(有限合夥)), Ningbo Kunlong Equity Investment Partnership Enterprise (L.P.) (寧波昆瀧股權投資合夥企業(有限合夥)), Hangzhou Heiyi Enterprise Management Partnership (LP), Mr. Mai Gang, Beijing Mochishan Venture Capital Management Centre (L.P.) (北京墨池山創業投資管理中心(有限合夥)), Ningbo Huaqiang Ruiming Investment Partnership Enterprise (L.P.) (寧波華強睿明投資合夥企業(有限合夥)), Zhejiang Zhongying Holding Group (浙江中贏股權投資基金管理有限公司), Beijing Jinhui Feng Beiying Investment Enterprise (L.P.) (北京金慧豐倍盈投資企業(有限合夥)), Mr. Yin Wei, Beijing Future Innovation Technology Co., Ltd. (北京新創未來科技股份有限公司), Beijing Qifu Venture Capital Investment Centre (L.P.) (北京啟賦創業投資中心(有限合夥)), Ningbo Jinhui Feng Taiying Investment Partnership Enterprise (L.P.) (寧波金慧豐泰盈投資合夥企業(有限合夥)) and Ningbo Meishan Bonded Port Rongkai Investment Partnership Enterprise (L.P.) are all Independent Third Parties.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

In preparation for the [REDACTED] and in order to streamline our corporate structure, we have undergone the following Reorganization steps:

1. Delisting of Beijing Pop Mart from the NEEQ

On April 2, 2019, Beijing Pop Mart, our holding company prior to the Reorganization, was delisted from the NEEQ. For details of the delisting, see the sub-section headed "Listing and Delisting of Beijing Pop Mart on the NEEQ" above.

2. Conversion of Beijing Pop Mart into a company with limited liability

On May 6, 2019, Beijing Pop Mart was converted from a joint stock company into a company with limited liability.

3. Incorporation of our Company

On May 9, 2019, our Company was incorporated in the Cayman Islands as an exempted company with limited liability and the ultimate holding company of our Group, as part of the Reorganization. Upon incorporation, the authorized share capital of our Company was US\$50,000 divided into 500,000,000 shares with a par value of US\$0.0001 each.

On May 9, 2019, (i) one Share of our Company was issued to Sertus Nominees (Cayman) Limited, which was transferred to GWF Holding on the same day, and (ii) 54,833,988 Shares of our Company were issued to GWF Holding. Such Shares, such that GWF Holding held 100% interest in our Company. This issuance was part of the change of the equity interests of the then shareholders in Beijing Pop Mart into interests of their nominees in our Company, as further discussed below under the paragraph headed "7. Acquisition of equity interests in Beijing Pop Mart and the allotment and issuance of additional shares of our Company to former shareholders of Beijing Pop Mart".

4. Incorporation of Pop Mart (BVI) Holding Limited

On May 10, 2019, Pop Mart (BVI) Holding Limited was incorporated as a company with limited liability in the BVI with our Company as the sole shareholder. The authorized share capital of Pop Mart (BVI) Holding Limited is US\$50,000 divided into 50,000 shares with a par value of US\$1.00 each, consisting one issued share.

5. Incorporation of Pop Mart (Hong Kong) Holding Limited

On May 27, 2019, Pop Mart (Hong Kong) Holding Limited was incorporated as a limited liability company in Hong Kong with Pop Mart (BVI) Holding Limited as the sole shareholder. The authorized share capital of Pop Mart (Hong Kong) Holding Limited is HK\$1 consisting one share.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

6. Transfer of shares of Beijing Pop Mart to foreign investor and conversion of Beijing Pop Mart into a jointly-funded company

On June 17, 2019, Mr. Wang entered into a share transfer agreement with Mr. Kenny Wong, an Independent Third Party, pursuant to which Mr. Kenny Wong agreed to purchase equity interests in Beijing Pop Mart equivalent to registered capital of RMB2,309,126, which represent 2% of the then share capital of Beijing Pop Mart, from Mr. Wang at the consideration of the foreign currency equivalent of RMB3,453,184.66. The consideration was determined based on arms' length negotiations between Mr. Wang and Mr. Kenny Wong, after taking into consideration, among others, the timing of the share transfer and the valuation of our Group at the time of the share transfer.

Subsequent to and as a result of the share transfer from Mr. Wang to Mr. Kenny Wong, on June 26, 2019, Beijing Pop Mart was converted from a domestic company to a joint venture company.

7. Acquisition of equity interests in Beijing Pop Mart and the allotment and issuance of additional shares of our Company to former shareholders of Beijing Pop Mart

On August 2, 2019, Pop Mart (Hong Kong) Holding Limited entered into a share transfer agreement with all the then shareholders of Beijing Pop Mart, pursuant to which Pop Mart (Hong Kong) Holding Limited agreed to acquire all the registered capital of a total amount of RMB172,659,200 of Beijing Pop Mart from the then shareholders of Beijing Pop Mart, at the total consideration of RMB172,659,200. As a result, Beijing Pop Mart became an indirect wholly-owned subsidiary of our Company, through Pop Mart (Hong Kong) Holding Limited.

On September 11, 2019, our Company repurchased 2,309,126 Shares from GWF Holding, at nil consideration, to reflect the decrease in Mr. Wang's interest in our Company after the transfer of Shares to Mr. Kenny Wong as reflected to in paragraph 6 above, and allotted and issued 62,931,415 Shares to the nominees of the shareholders of Beijing Pop Mart as of the date of the acquisition of all the issued share capital by Pop Mart (Hong Kong) Holding Limited as mentioned above. After such repurchase and allotment and issuance of Shares, the respective shareholdings of our Shareholders reflected the shareholdings of the shareholders in Beijing Pop Mart as follows.

Shareholder of Beijing Pop Mart	Number of Shares in Beijing Pop Mart	Shareholding in Beijing Pop Mart after the NEEQ Delisting and immediately prior to the Reorganization	Shareholder of our Company (Nominee of the relevant Shareholder of Beijing Pop Mart)	Number of Shares in our Company	Shareholding in our Company as of September 11, 2019
Mr. Wang	54,833,989	47.49%	GWF Holding	52,524,863	45.49%
			Kenny Wong Holding Limited	577,279	0.50%
			Wong Shun Ming Holding Limited	1,731,847	1.50%

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

Shareholder of Beijing Pop Mart	Number of Shares in Beijing Pop Mart	Shareholding in Beijing Pop Mart after the NEEQ Delisting and immediately prior to the Reorganization	Shareholder of our Company (Nominee of the relevant Shareholder of Beijing Pop Mart)	Number of Shares in our Company	Shareholding in our Company as of September 11, 2019
Beijing Pop Mart Investment Enterprise (L.P.) (北京泡泡瑪特投資企業 (有限合夥))	10,045,399	8.70%	Pop Mart Hehuo Holding Limited Sidsi Holding Limited Justin Moon Holding Limited	8,868,801 1,067,000 109,598	7.68% 0.93% 0.09%
Ningbo Huaqiang Ruizhe Investment Partnership Enterprise (L.P.) (寧波華強睿哲投資合夥企業 (有限合夥))	7,827,204	6.78%	Qiangqu Capital Holding Limited	10,226,944	8.86%
Ningbo Huaqiang Ruiming Investment Partnership Enterprise (L.P.) (寧波華強睿明投資合夥企業 (有限合夥))	2,399,740	2.08%			
Ningbo Kunlong Equity Investment Partnership Enterprise (L.P.) (寧波昆瀧股權投資合夥企業 (有限合夥))	5,484,000	4.75%	Kun Long Holding Limited	5,484,000	4.75%
Hangzhou Heiyi Enterprise Management Partnership (LP) (杭州黑翼企業管理合夥企業 (有限合夥))	5,194,000	4.50%	BA MART Holding Limited	5,194,000	4.50%
Tianjin Paqu Technology Centre (L.P.) (天津葩趣科技中心 (有限合夥))	5,072,343	4.39%	Tianjin Paqu Holding Limited Sidsi Holding Limited Lee Chun Kiu Holding Limited Shanghai Kangmai Enterprise Management Center (L.P.)	3,874,145 43,648 288,628 865,922	3.36% 0.04% 0.25% 0.75%
Mr. Mai Gang	5,044,198	4.37%	Maxtin Holdings Limited	5,044,198	4.37%

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

Shareholder of Beijing Pop Mart	Number of Shares in Beijing Pop Mart	Shareholding in Beijing Pop Mart after the NEEQ Delisting and immediately prior to the Reorganization	Shareholder of our Company (Nominee of the relevant Shareholder of Beijing Pop Mart)	Number of Shares in our Company	Shareholding in our Company as of September 11, 2019
Suzhou Fengqiaojichu Venture Capital Partnership Enterprise (L.P.) (蘇州蜂巧齋初創業投資合夥企業(有限合夥))	3,291,000	2.85%	Borchid Phoenix Holding Limited	3,291,000	2.85%
Beijing Mochishan Venture Capital Management Centre (L.P.) (北京墨池山創業投資管理中心(有限合夥))	2,594,364	2.25%	Long Yi Holding Limited	2,594,364	2.25%
Zhejiang Zhongying Holding Group (浙江中贏股權投資基金管理有限公司)	2,399,740	2.08%	Chuanggu Holding Limited	2,399,740	2.08%
Beijing Jinhui Feng Beiyong Investment Enterprise (L.P.) (北京金慧豐倍盈投資企業(有限合夥))	2,170,702	1.88%	Beiyong Holding Limited	2,170,702	1.88%
Mr. Yin Wei	2,050,314	1.78%	Chuang Ding Holding Limited	2,050,314	1.78%
Beijing Future Innovation Technology Co., Ltd. Beijing Douding New Technology Co., Ltd. (北京新創未來科技股份有限公司)	1,713,528	1.48%	XCWL Holdings Limited	1,713,528	1.48%
Hangzhou Heiyi Investment Limited Partnership (Limited Partnership) (杭州黑蟻投資合夥企業(有限合夥))	1,643,663	1.42%	Shanghai Kangmai Enterprise Management Center (L.P.)	1,643,663	1.42%
Beijing Qifu Venture Capital Investment Centre (L.P.) (北京啟賦創業投資中心(有限合夥))	1,339,876	1.16%	Qiurang Limited	1,339,876	1.16%

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

Shareholder of Beijing Pop Mart	Number of Shares in Beijing Pop Mart	Shareholding in Beijing Pop Mart after the NEEQ Delisting and immediately prior to the Reorganization	Shareholder of our Company (Nominee of the relevant Shareholder of Beijing Pop Mart)	Number of Shares in our Company	Shareholding in our Company as of September 11, 2019
Ningbo Jinhui Feng Taiying Investment Partnership Enterprise (L.P.) (寧波金慧豐泰盈投資合夥企業(有限合夥))	1,199,870	1.04%	Taiying Holding Limited Gabrielle Wang Holding Limited	933,455 266,415	0.81% 0.23%
Ningbo Meishan Bonded Port Rongkai Investment Partnership Enterprise (L.P.) (寧波梅山保稅港區榕凱股權投資合夥企業(有限合夥))	1,152,348	1.00%	Rong&Kai Holdings Limited	1,152,348	1.00%
Total	115,456,278	100%		115,456,278	100%

8. Contractual Arrangements in respect of Paqu Huyu

On December 18, 2019, Beijing Pop Mart entered into various agreements that constituted the Contractual Arrangements with, among others, Paqu Huyu and the Relevant Shareholders, pursuant to which Beijing Pop Mart will exercise effective control over the operations of, and enjoy substantially all the economic benefits of Paqu Huyu, which in turn holds certain of our Group's licenses and permits necessary to operate our businesses. See the section headed "Contractual Arrangements" in this Document for details of the Contractual Arrangements.

[REDACTED] INVESTMENTS

1. Issuance of the Exchangeable Notes by Certain Existing Shareholders to SCC GROWTH V HOLDCO F, LTD.

On June 14, 2019, Hangzhou Heiyi Investment Limited Partnership (Limited Partnership) (杭州黑蟻投資合夥企業(有限合夥)) ("Hangzhou Heiyi"), Beijing Mochishan Venture Capital Management Centre (L.P.) (北京墨池山創業投資管理中心(有限合夥)) ("Beijing Mochishan") and Tianjin Paqu Technology Centre (L.P.) (天津葩趣科技中心(有限合夥)) ("Tianjin Paqu") entered into a note purchase agreement with SCC GROWTH V HOLDCO F, LTD. (the "Note Holder"), pursuant to which they agreed to each issue an exchangeable note to the Note Holder.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

On August 1, 2019, August 2, 2019 and August 6, 2019, Hangzhou Heiyi, Beijing Mochishan and Tianjin Paqu issued exchangeable notes (the “**Exchangeable Notes**”) in the principal amounts of RMB22,500,000, RMB15,000,000 and RMB56,250,000 respectively, to the Note Holder.

On November 5, 2019, the Note Holder exchanged and acquired 865,923 Shares, 346,368 Shares and 230,912 Shares from Tianjin Paqu Holding Limited (the nominee of Tianjin Paqu) (“**Tianjin Paqu Holding**”), Shanghai Kangmai Enterprise Management Center (L.P.) (the nominee of Hangzhou Heiyi) and Long Yi Holding Limited (the nominee of Beijing Mochishan) respectively, which represented the maximum numbers of Shares which the Note Holder can exchange and acquire under the Exchangeable Notes. The transfer of 865,923 Shares held by Tianjin Paqu Holding out of its 3,874,145 Shares represented the disposal of the indirect interest of its shareholder, Mr. Zhong Yuchi, who is an Independent Third Party. Subsequent to such transfer, Mr. Wang became the sole shareholder of Tianjin Paqu Holding.

2. [REDACTED] Investment by GWF Holding, Pop Mart Hehuo Holding Limited, Sidsi Holding Limited and Justin Moon Holding Limited

On October 10, 2019, our Company entered into a share subscription agreement with GWF Holding, Pop Mart Hehuo Holding Limited, Sidsi Holding Limited, Justin Moon Holding Limited, and their respective shareholders, pursuant to which the aforementioned [REDACTED] Investors agreed to subscribe for 6,076,646 Shares. Details are set forth below:

<u>Name of [REDACTED] Investor</u>	<u>Shares Purchased</u>	<u>Consideration</u>
GWF Holding	5,166,417	US\$47,449,267.14
Pop Mart Hehuo Holding Limited	800,139	US\$7,348,614.94
Sidsi Holding Limited	100,202	US\$920,272.50
Justin Moon Holding Limited	9,888	US\$90,813.10

3. [REDACTED] Investment by SCC GROWTH V HOLDCO F, LTD.

On October 31, 2019, SCC GROWTH V HOLDCO F, LTD. entered into a Share Purchase Agreement with, among others, Qiangqu Capital Holding Limited, pursuant to which SCC GROWTH V HOLDCO F, LTD. agreed to purchase 4,618,251 Shares from Qiangqu Capital Holding Limited at the consideration of US\$80,000,000.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

4. [REDACTED] Investment by GWF Holding

On November 11, 2019, each of Chuanggu Holding Limited and Beiying Holding Limited entered into a share purchase agreement with our Company and GWF Holding, pursuant to which GWF Holding agreed to purchase an aggregate of 2,369,893 Shares from Chuanggu Holding Limited and Beiying Holding Limited at the total consideration of US\$27,372,264.15. Details are set forth below:

<u>Name of Seller of Shares</u>	<u>Name of [REDACTED] Investor</u>	<u>Shares Purchased</u>	<u>Consideration</u>
Chuanggu Holding Limited	GWF Holding	1,154,563	US\$13,335,202.65
Beiying Holding Limited		1,215,330	US\$14,037,061.5

5. [REDACTED] Investment by Million Profit International Holdings Limited

On November 15, 2019, GWF Holding entered into a share purchase agreement with, among others, Million Profit International Holdings Limited, pursuant to which Million Profit International Holdings Limited agreed to purchase 538,261 Shares from GWF Holding at the consideration of RMB34,965,249.

6. Series A [REDACTED] Investment by LVC Amusement LP

On January 31, 2020, our Company, Pop Mart (BVI) Holding Limited, Pop Mart (Hong Kong) Holding Limited, 19 PRC subsidiaries of our Company and LVC Amusement LP, entered into a series A Preferred Shares subscription agreement, pursuant to which LVC Amusement LP agreed to subscribe for a total of 610,718 series A Preferred Shares of our Company at the consideration of US\$12,500,000.

In concurrence with the share subscription, GWF Holding, Justin Moon Holding Limited, Sidsi Holding Limited, Pop Mart Hehuo Holding Limited, Kenny Wong Holding Limited (each, a "Seller" and collectively, the "Sellers"), our Company and LVC Amusement LP entered into a series A Preferred Shares purchase agreement, pursuant to which LVC Amusement LP agreed to purchase 2,261,690 Shares, 1,074,436 Shares, 244,287 Shares, 60,000 Shares and 23,897 Shares of our Company at the consideration of US\$46,291,593, US\$21,991,235, US\$4,999,993, US\$1,228,062 and US\$489,117 respectively, from GWF Holding, Pop Mart Hehuo Holding Limited, Kenny Wong Holding Limited, Sidsi Holding Limited and Justin Moon Holding Limited, respectively. The Shares of our Company acquired pursuant to such share purchase were reclassified into series A Preferred Shares of our Company.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

7. [REDACTED] Investment by Saturn Group Business Limited, Huaxing Growth Capital III, L.P. and Lead Accomplish Limited

On March 5, 2020, March 9 2020, March 10 2020 and March 11, 2020, Saturn Group Business Limited, Lead Accomplish Limited and Huaxing Growth Capital III, L.P. entered into share purchase agreements with certain existing Shareholders of our Company respectively, pursuant to which the aforementioned [REDACTED] Investors agreed to purchase Shares from certain then Shareholders. Details are set forth below:

<u>Name of Seller of Shares</u>	<u>Name of [REDACTED] Investor</u>	<u>Shares Purchased</u>	<u>Consideration</u>
Ventureslab Holdings Corporation	Saturn Group Business Limited	488,574	US\$10,000,000.00
World Harvest Capital Limited	Huaxing Growth Capital III, L.P. ⁽¹⁾	889,047	US\$18,196,746.25
Chuang Ding Holding Limited		332,390	US\$6,803,253.75
BA MART Holding Limited ⁽¹⁾		342,002	US\$7,000,000.00
Golden Ocean Global Limited		244,287	US\$5,000,000.00
Golden Ocean Global Limited	Lead Accomplish Limited	48,858	US\$1,000,000.00

(1) BA MART Holding Limited did not receive the US\$7,000,000 consideration as stated in the share purchase agreement between BA MART Holding Limited and Huaxing Growth Capital III, L.P. as BA MART Holding Limited did not proceed with the transaction. On April 2, 2020, Huaxing Growth Capital III, L.P. reversed the transaction and transferred 342,002 Shares back to BA MART Holding Limited for no consideration.

8. [REDACTED] Investment by Huaxing Growth Capital III, L.P.

On April 6, 2020, Huaxing Growth Capital III, L.P. entered into a share purchase agreement with Hangzhou Heiyi Enterprise Management Partnership (LP) pursuant to which Huaxing Growth Capital III, L.P. agreed to purchase 342,002 Shares from Hangzhou Heiyi Enterprise Management Partnership (LP) at the consideration of US\$7,000,000.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

9. [REDACTED] Investment by How2work Holding Limited, Huaxing Growth Capital III, L.P. and BA Capital Fund III, L.P.

On April 22, April 23 and April 27, 2020, How2work Holding Limited, Huaxing Growth Capital III, L.P. and BA Capital Fund III, L.P. entered into share purchase agreements with certain existing Shareholders of our Company respectively, pursuant to which the aforementioned [REDACTED] Investors agreed to purchase Shares from certain then Shareholders. Details are set forth below:

Name of Seller of Shares	Name of [REDACTED] Investor	Shares Purchased	Consideration
GWF Holding	How2work Holding Limited	63,026	US\$1,289,997.26
Taiying Holding Limited	Huaxing Growth Capital III, L.P.	464,145	US\$9,499,982.82
Gabrielle Wang Holding Limited		146,572	US\$2,999,992.42
World Harvest Capital Limited	BA Capital Fund III, L.P. (formerly known as BA Capital I L.P.)	266,714	US\$5,459,022.30
Chuang Ding Holding Limited		99,717	US\$2,040,977.70

10. Terms of the [REDACTED] Investments

	[REDACTED] Investment by GWF Holding, Pop Mart Hehuo Holding Limited, Sidi Investment Holding and Justin Moon Holding LTD.	[REDACTED] Investment by SCC GROWTH V HOLDCO F, LTD.	[REDACTED] Investment by GWF Holding	[REDACTED] Investment by Million Profit International Holdings Limited	[REDACTED] Series A Investment by LVC Amusement LP	[REDACTED] Investment by Saturn Group Business Limited, Huaxing Growth Capital III, L.P. and Lead Accomplish L.P.	[REDACTED] Investment by Huaxing Growth Capital III, L.P.	[REDACTED] Investment by How2work Holding Limited, Huaxing Growth Capital III, L.P. and BA Capital Fund III, L.P.
Basis of consideration	The consideration were determined after arm's length negotiations between the seller, purchasers of the Shares and our Company (as applicable) on the one hand, and the [REDACTED] Investors on the other hand, taking into account the then valuation of our Company.							
Cost per Share/ Preferred Share paid after taking into account the effect of the Capitalization Issue	6.7	6.7	13.3	8.9	6.7	15.9	15.9	15.9
Discount to the [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

	[REDACTED] Investment by GWF Holding, Pop Mart Hehuo Holding Limited, Sidsi [REDACTED] Investment by SCC GROWTH V HOLDCO F, LTD.	[REDACTED] Investment by Saturn Group Business Limited, Huaxing Growth [REDACTED] Capital III, Investment by Huaxing Growth Capital III, L.P.	[REDACTED] Investment Series A [REDACTED] Investment by LVC Amusement LP	[REDACTED] Investment by Million Profit International Holdings Limited	[REDACTED] Investment by LVC Amusement LP	[REDACTED] Investment by Saturn Group Business Limited, Huaxing Growth [REDACTED] Capital III, Investment by Huaxing Growth Capital III, L.P.	[REDACTED] Investment by Saturn Group Business Limited, Huaxing Growth [REDACTED] Capital III, Investment by Huaxing Growth Capital III, L.P.	[REDACTED] Investment by Saturn Group Business Limited, Huaxing Growth [REDACTED] Capital III, Investment by Huaxing Growth Capital III, L.P.	[REDACTED] Investment by Saturn Group Business Limited, Huaxing Growth [REDACTED] Capital III, Investment by Huaxing Growth Capital III, L.P.
Date of the agreement(s)	June 14, 2019	October 10, 2019	October 31, 2019	November 11, 2019	November 15, 2019	January 31, 2020	March 5, 9, 10, 11, 2020	April 6, 2020	April 22, 2020
Date on which investment was fully settled	August 7, 2019	April 27, 2020	December 9, 2019	January 2, 2020	December 20, 2019	March 3, 2020	April 3, 2020	April 24, 2020	May 2, 2020
Lock-Up Period	Pursuant to the Shareholders' Agreement entered into among the shareholders on January 31, 2020, the [REDACTED] Investors shall not transfer any shares of our Company during the first 6 months after the completion of the [REDACTED], provided that Mr. Wang and GWF Holding may be subject to a longer period of lock-up if required by the applicable listing rules and/or the [REDACTED].								
Use of Proceeds from the [REDACTED] Investments	We have utilized the proceeds received from the issuance of Shares for the Companies' business expansion and other working capital purposes in compliance with applicable laws. As of the Latest Practicable Date, approximately 2.4% net proceeds from the [REDACTED] Investments had been utilized.								
Strategic benefits the [REDACTED] Investors brought to our Company	At the time of the [REDACTED] Investments, our Directors were of the view that our Company would benefit from the additional capital that would be provided by the [REDACTED] Investor's investments in our Company (as applicable).								

11. Rights of the [REDACTED] Investors

Pursuant to the Shareholders' Agreement entered into among shareholders of our Company on January 31, 2020, the Series A [REDACTED] Investor has been granted certain special rights such as information and inspection rights, preemptive right, right of first refusal and right of co-sale. These rights shall terminate upon the consummation of [REDACTED].

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

12. Information on the [REDACTED] Investors

SCC GROWTH V HOLDCO F, LTD. is a company with limited liability incorporated in the Cayman Islands and wholly-owned by Sequoia Capital China Growth Fund V, L.P., an investment fund whose primary purpose is to make equity investments in private companies, which is an Independent Third Party.

GWF Holding is an investment holding company incorporated in the BVI and wholly-owned by UBS Trustees (B.V.I.) Ltd. as trustee for a trust established by Mr. Wang (as settlor) for the benefit of Mr. Wang, who is our controlling shareholder and executive Director.

Pop Mart Hehuo Holding Limited is an exempted investment holding company incorporated in the BVI and owned by Mr. Wang as to 43.18%, Ms. Yang Tao as to 15.11%, Mr. Si De as to 0.92%, Ms. Liu Ran as to 9.23%, who are our executive Directors, together with 12 other employees of our Company.

Sidsi Holding Limited is an exempted investment holding company incorporated under the laws of BVI and wholly-owned by TMF (Cayman) Ltd. as trustee of XM Family Trust set up by Mr. Si De (as settlor) for the benefit of himself. Mr. Si De is our executive Director.

Justin Moon Holding Limited is an exempted investment holding company incorporated under the laws of BVI and wholly-owned by Mr. Duk Il Moon, our vice president.

Million Profit International Holdings Limited is a limited investment holding company incorporated in Hong Kong and is 50% owned by Able Fast Investment Limited (迅茂投資有限公司), which is jointly-owned as to 70% by Mr. Jin Huiming and 30% as to Ms. Jin Ling; 18% owned by Fast Rich International Development Limited (迅富國際發展有限公司), which is wholly-owned by Mr. Jin Jianming; 10% owned by Fast Wealthy Holdings Limited (迅寶集團有限公司), which is jointly-owned as to 60% by Ms. Chen Ning and 40% by Mr. Chen Chen; and 22% owned by United Win Development Limited (聯勝發展有限公司), which is wholly-owned by Mr. Jin Huiming, all of whom are Independent Third Parties

LVC Amusement (L.P.) is an investment vehicle established in 2020 by Loyal Valley Capital, a private equity firm that mainly focuses on the following segments: new consumer (media, entertainment and education), healthcare and also covers specialty industrials and financial services. LVC Amusement (L.P.) is ultimately controlled by Mr. Lijun Lin, an Independent Third Party.

Saturn Group Business Limited is an investment holding company incorporated under the laws of BVI and is 95.45% owned by Vision Knight Capital (China) Fund II (L.P.) and 4.55% owned by Vision Knight Capital (China) Entrepreneur Fund II (L.P.). The general partner of both Vision Knight Capital (China) Fund II (L.P.) and Vision Knight Capital (China) Entrepreneur Fund II (L.P.) is Vision Knight Capital (China) GP II (L.P.), which is an Independent Third Party.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

Huaxing Growth Capital III, L.P. is a limited partnership involved in investment holding and established in the Cayman Islands. Its general partner is Huaxing Associates III, (L.P.), in which CR Investments Corporation holds 79.37% interest as a limited partner. CR Investments Corporation is wholly-owned by China Renaissance Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 1911).

Lead Accomplish Limited is an investment holding company incorporated under the laws of BVI and wholly-owned by Ms. Yuan Lingyun, who is an Independent Third Party.

How2work Holding Limited is a limited investment holding company incorporated in Hong Kong and wholly-owned by Mr. Lee Howard, who is an Independent Third Party.

BA Capital Fund III, L.P. is a limited partnership involved in investment holding established under the laws of the Cayman Islands. BA Capital Limited is the general partner, which is indirectly owned as to 40% by Mr. He Yu, our non-executive Director.

13. Public Float

SCC GROWTH V HOLDCO F, LTD., LVC Amusement LP, Huaxing Growth Capital III, L.P., Million Profit International Holdings Limited, Saturn Group Business Limited, How2work Holding Limited and Lead Accomplish Limited hold approximately 4.96%, 3.50%, 1.98%, 0.44%, 0.40%, 0.05% and 0.04% respectively of the issued shares in our Company immediately prior to completion of the [REDACTED], and will hold approximately [REDACTED]%, [REDACTED]%, [REDACTED]%, [REDACTED]%, [REDACTED]%, [REDACTED]% and [REDACTED]% respectively upon the completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] is not exercised and no Shares are issued under the [REDACTED] Share Award Scheme).

Accordingly, SCC GROWTH V HOLDCO F, LTD., LVC Amusement LP, Huaxing Growth Capital III, L.P., Million Profit International Holdings Limited, Saturn Group Business Limited, How2work Holding Limited and Lead Accomplish Limited will not be Substantial Shareholders of our Company upon [REDACTED]. In addition, they will not be core connected persons of our Company upon [REDACTED] and are not accustomed to take instructions from core connected persons in relation to the acquisition, disposal, voting or other disposition of their Shares and their acquisition of Shares were not financed directly or indirectly by core connected persons, the Shares held by them will be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules after [REDACTED].

The Shares held by GWF Holding will not be considered as part of the public float because it is under the control of Mr. Wang, who is our controlling shareholder and executive Director. GWF Holding is also a substantial shareholder of our Company.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

The Shares held by Pop Mart Hehuo Holding Limited will not be considered as part of the public float because it is also under the control of Mr. Wang.

The Shares held by Sidsi Holding Limited will not be considered as part of the public float because it is under the control of Mr. Si De, who is our executive Director.

The Shares held by BA Capital Fund III, L.P. will not be considered as part of the public float because it is a close associate of Mr. He Yu, our non-executive Director.

The Shares held by Justin Moon Holding Limited will not be considered as part of the public float because it is under the control of Mr. Duk Il Moon, our vice president and director of Pop Mart Korea.

COMPLIANCE WITH INTERIM GUIDANCE AND GUIDANCE LETTERS

Based on the review of the relevant agreements, the Joint Sponsors are of the view that the terms of the [REDACTED] investments by the [REDACTED] Investors as described above are in compliance with the Interim Guidance on the [REDACTED] investments issued in October 2010 and updated in March 2017 in the Guidance Letter GL29-12 by the Stock Exchange. Guidance Letter HKEX-GL43-12 issued in October 2012 and updated in July 2013 and in March 2017 by the Stock Exchange and the Guidance Letter HKEX-GL44-12 issued in October 2012 and updated in March 2017 by the Stock Exchange.

PRC REGULATORY REQUIREMENTS

Our PRC legal advisor has confirmed that the share transfers, reorganizations and acquisitions in respect of the PRC companies in our Group as described above have been properly and legally completed and all regulatory approvals have been obtained in accordance with PRC laws and regulations.

M&A Rules

According to the "Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (2009 Revision)" (關於外國投資者併購境內企業的規定) (the "M&A Rules") jointly issued by the MOFCOM, the State-Owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), the State Administration of Taxation (國家稅務總局), the China Securities Regulatory Commission (中國證券監督管理委員會) (the "CSRC"), State Administration for Industry and Commerce (國家工商行政管理總局) and the State Administration of Foreign Exchange (國家外匯管理局) on August 8, 2006 and effective as at September 8, 2006 and subsequently amended on June 22, 2009, where a domestic natural person intends to take over his/her related domestic company in the name of an offshore company which he/she lawfully established or controls, the takeover shall be subject to the examination and approval of MOFCOM; and where a domestic natural person holds an equity interest in a domestic company through an offshore special purpose company, any transaction involving the overseas listing of that special purpose company shall be subject to approval by the CSRC.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

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

As advised by our PRC Legal Adviser, since Kenny Wong is not a related party to the Beijing Pop Mart, the share transfer between Mr. Wang and Kenny Wong does not apply to Article 11 of the M&A Rules and no approval from MOFCOM is required; given that Beijing Pop Mart was an existing foreign-invested enterprise prior to the acquisition of the rest equity interest of Beijing Pop Mart by Pop Mart (Hong Kong) Holding Limited, the acquisition does not apply to M&A Rules. Unless new laws and regulations are enacted or MOFCOM and CSRC publish new provisions or interpretations on the M&A Rules to the contrary in the future, the M&A Rules is not applicable and approval from MOFCOM or CSRC for the [REDACTED] is not required.

SAFE Registration in the PRC

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 37**”), promulgated by SAFE and which became effective on July 4, 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

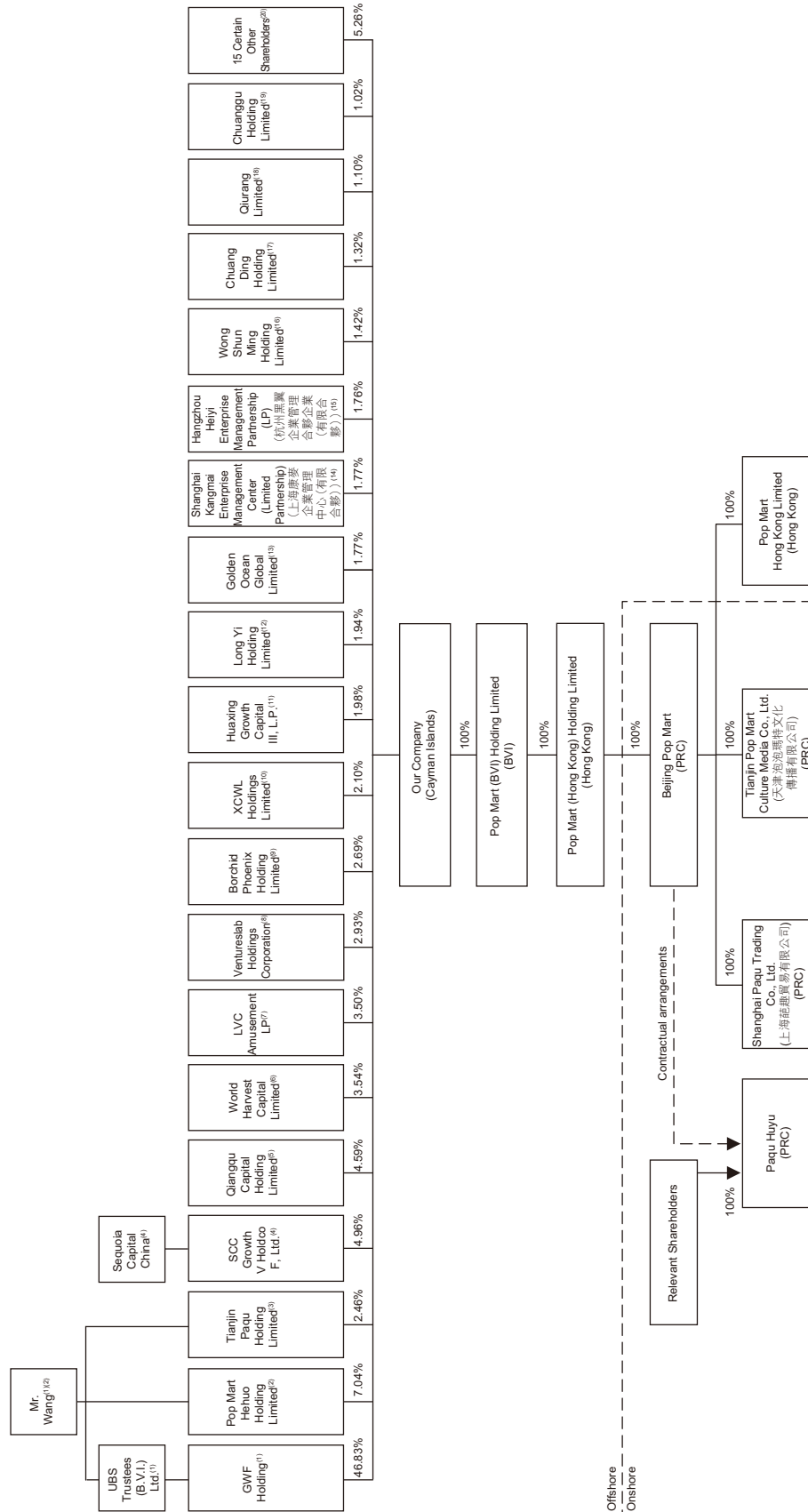
Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**SAFE Circular 13**”), promulgated by SAFE and became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC Legal Advisor, Mr. Wang, Mr. Mai Gang and Mr. Yin Wei completed the registration under the SAFE Circular 37 on July 12, 2019.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

OUR STRUCTURE IMMEDIATELY PRIOR TO THE [REDACTED]

The following diagram illustrates the corporate and shareholding structure of our Company and our major subsidiaries immediately prior to the completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] is not exercised and no Shares are issued under the [REDACTED] Share Award Scheme):



HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

Notes:

- (1) GWF Holding is an exempted investment holding company incorporated in the BVI and wholly-owned by UBS Trustees (B.V.I.) Ltd. as trustee for a trust established by Mr. Wang (as settlor) for the benefit of Mr. Wang, who is our controlling shareholder and executive Director. On April 22, 2020, GWF Holding entered into a security over shares and account agreement with Grand Eternity Limited (the "**Lender**"), an Independent Third Party, pursuant to which GWF Holding pledged 5,862,897 Shares (the "**Pledged Shares**") (which represents 4.80% of the share capital of our Company as at the date of the Document) in our Company in favour of the Lender as security for a term loan facility in an aggregate amount of US\$36,000,000, provided by the Lender to GWF Holding pursuant to a facility agreement dated April 22, 2020 for the purpose of financing the subscription of 5,166,417 Shares by GWF Holding in October 2019. See – [REDACTED] Investments – 2. [REDACTED] Investment by GWF Holding, Pop Mart Hehuo Holding Limited, Sidsi Holding Limited and Justin Moon Holding Limited in this section for details.
- (2) Pop Mart Hehuo Holding Limited is an exempted investment holding company incorporated in the BVI and owned by Mr. Wang as to 43.18%, Ms. Yang Tao as to 15.11%, Mr. Si De as to 0.92%, Ms. Liu Ran as to 9.23%, who are our executive Directors, together with 12 other employees of our Company
- (3) Tianjin Paqu Holding Limited is a company incorporated under the laws of BVI and wholly-owned by Mr. Wang, who is our controlling shareholder and executive Director.
- (4) SCC GROWTH V HOLDCO F, LTD. is a company incorporated under the laws of the Cayman Islands and wholly-owned by Sequoia Capital China Growth Fund V, L.P., which is an Independent Third Party.
- (5) Qiangqu Capital Holding Limited is a company incorporated under the laws of BVI and wholly-owned by Shanghai Qiangqu Enterprise Management Centre (L.P.) (上海強趣企業管理中心(有限合夥)). The general partner of Shanghai Qiangqu Enterprise Management Centre (L.P.) is Ningbo Huaqiang Ruiming Investment Partnership Enterprise (L.P.), which is an Independent Third Party.
- (6) World Harvest Capital Limited is a company incorporated in BVI and is wholly-owned by Trident Trust Company (HK) Limited, as trustee for a trust established by Mr. Yin Wei (as settlor) for the benefit of Mr. Yin Wei and another individual, who are Independent Third Parties.
- (7) LVC Amusement (L.P.) is an exempted limited partnership formed under the laws of the Cayman Islands. LVC Amusement (L.P.) is ultimately controlled by Mr. Lijun Lin, an Independent Third Party.
- (8) Ventureslab Holdings Corporation is a company incorporated under the laws of BVI and jointly-owned as to 70% by Mr. Mai Haoyun and 30% by Mr. Tim Draper, who are Independent Third Parties.
- (9) Borchid Phoenix Holding Limited is a company incorporated under the laws of BVI and wholly-owned by Shanghai Zhuniao Enterprise Management Limited Partnership (L.P.) (上海朱鳥企業管理合夥企業(有限合夥)). The general partner of Shanghai Zhuniao Enterprise Management Limited Partnership (L.P.) is Suzhou Fengqiao Lizhi Venture Capital Partnership (L.P.) (蘇州蜂巧禮智創業投資合夥企業(有限合夥)) ("**Fengqiao Lizhi**"). The general partner of Suzhou Fengqiao Lizhi Venture Capital Partnership (L.P.) is Shanghai Fengqiao Investment Management Co., Ltd. (上海蜂巧投資管理有限公司), which is owned as to 83% by Mr. Tu Zheng, our non-executive Director.
- (10) XCWL Holdings Limited is a company incorporated under the laws of BVI and wholly-owned by Beijing Future Innovation Technology Co., Ltd., which is owned as to 35.87% by Mr. Mai Gang, a former director of Beijing Pop Mart who serves until November 2018 and 64.13% by other 22 entities and individuals, all of which are Independent Third Parties.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

- (11) Huaxing Growth Capital III, L.P. is a limited partnership involved in investment holding and established in the Cayman Islands. Its general partner is Huaxing Associates III, (L.P.), in which CR Investments Corporation holds 79.37% interest as a limited partner. CR Investments Corporation is wholly-owned by China Renaissance Holdings Limited, a company listed on the Stock Exchange (stock code: 1911).
- (12) Long Yi Holding Limited is a company incorporated under the laws of BVI and jointly-owned as to 3% by Mr. Cheng Fu, 57% by Ms. Yu Jing and 40% by Mr. Cai Xiaodong, who are Independent Third Parties.
- (13) Golden Ocean Global Limited is a company incorporated under the laws of BVI and wholly-owned by Breeze Venture Limited, which is wholly-owned by Mr. Xu Peifeng, who is an Independent Third Party.
- (14) Shanghai Kangmai Enterprise Management Center (L.P.) (上海康麥企業管理中心(有限合夥)) is a company incorporated under the PRC laws. The general partner of Shanghai Kangmai Enterprise Management Center (L.P.) is Tianjin Heiyi Technology Enterprise (L.P.) (天津黑翼科技合夥企業(有限合夥)), and the general partner of Tianjin Heiyi Technology Enterprise (L.P.) is Mr. Zhang Peiyuan, who is an Independent Third Party.
- (15) Hangzhou Heiyi Enterprise Management Partnership (LP) (杭州黑翼企業管理合夥企業(有限合夥)) is a limited partnership organized in the PRC and its general partner is Tianjin Heiyi Technology Enterprise (L.P.) (天津黑翼科技合夥企業(有限合夥)), and the general partner of Tianjin Heiyi Technology Enterprise (L.P.) is Mr. Zhang Peiyuan, who is an Independent Third Party.
- (16) Wong Shun Ming Holding Limited is a company incorporated in the BVI and wholly-owned by Mr. Kenny Wong, who is an Independent Third Party.
- (17) Chuang Ding Holding Limited is a company incorporated under the laws of BVI and wholly-owned by Mr. Yin Wei, who is an Independent Third Party.
- (18) Qiurang Limited is a company incorporated under the laws of BVI and wholly-owned by Shanghai Qiurang Enterprise Management Center (L.P.) (上海秋讓企業管理中心(有限合夥)). The general partner of Shanghai Qiurang Enterprise Management Center (L.P.) is Beijing Qifu Investment Consulting Center (L.P.) (北京啟賦投資諮詢中心(有限合夥)), which is an Independent Third Party.
- (19) Chuanguu Holding Limited is a company incorporated under the laws of BVI and jointly-owned as to 70% by Mr. Wu Zhongfu and 30% by Ms. Yang Guifang, who are Independent Third Parties.
- (20) 15 certain other Shareholders each held less than 1% shareholding of our Company immediately prior to the [REDACTED], with their percentage shareholding shown in brackets and details as set out below:
 - (i) Rong&Kai Holdings Limited (0.94%) is a company incorporated under the laws of BVI and jointly-owned as to 61.75% by Mr. Zhao Jianyi, 33.25% by Mr. Yang Jigan and 5% by Mr. Chen Hua, who are Independent Third Parties.
 - (ii) Sidsi Holding Limited (0.94%) is an exempted investment holding company incorporated under the laws of BVI and wholly-owned by TMF (Cayman) Ltd. as trustee of XM Family Trust with set up by Mr. Si De (as settlor) for the benefit of himself. Mr. Si De is our executive Director.
 - (iii) Beiying Holding Limited (0.78%) is a company incorporated under the laws of BVI and wholly-owned by Shanghai Cunming Enterprise Management and Services Limited Partnership (L.P.) (上海存銘企業管理服務合夥企業(有限合夥)). The general partner of Shanghai Cunming Enterprise Management and Services Limited Partnership (L.P.) is Beijing Jinhufeng Investment Management Co., Ltd. (北京金慧豐投資管理有限公司), which is an Independent Third Party.

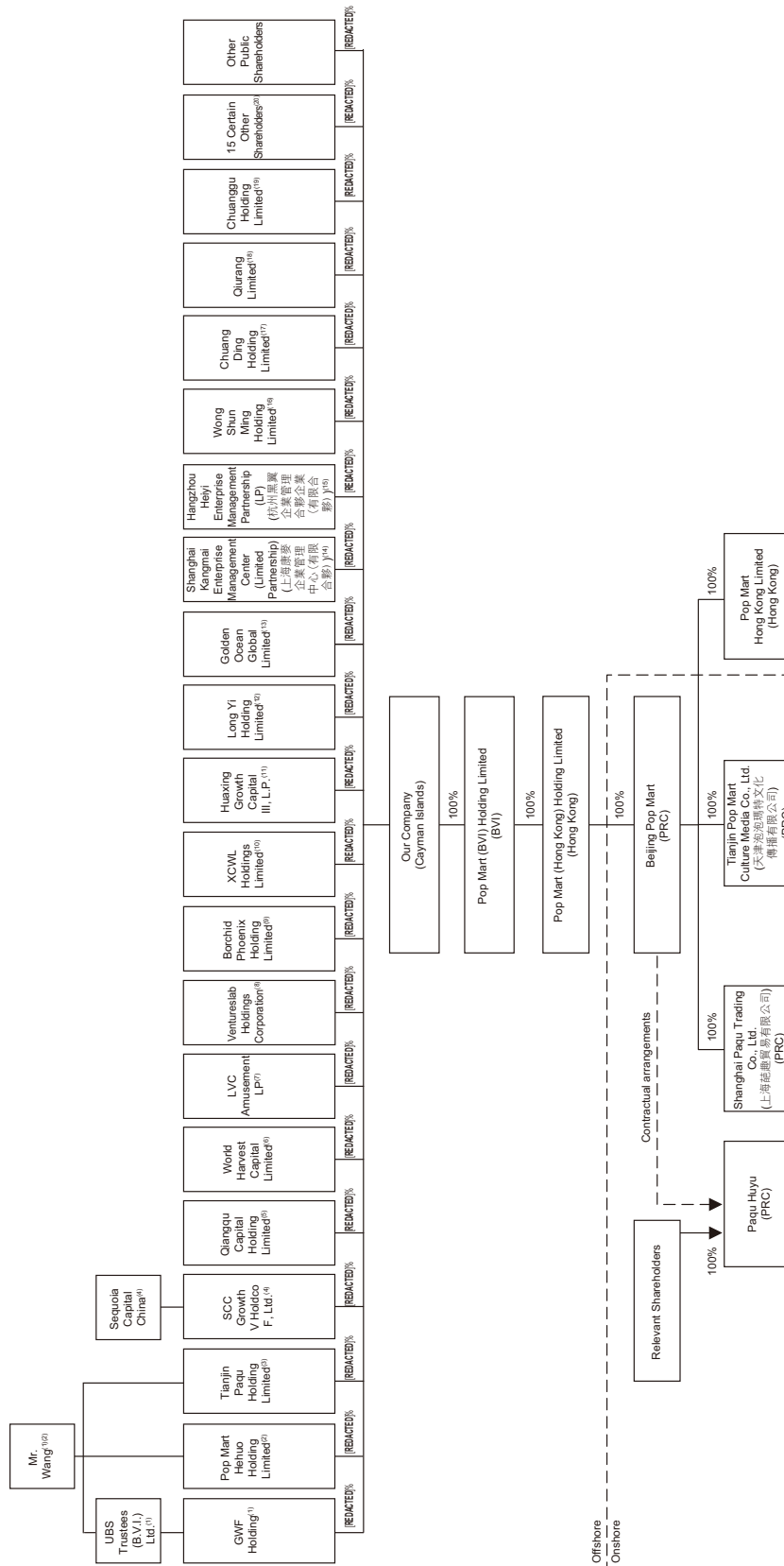
HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

- (iv) Million Profit International Holdings Limited (0.44%) is a limited investment holding company incorporated in Hong Kong and is 50% owned by Able Fast Investment Limited (迅茂投資有限公司), which is jointly-owned as to 70% by Mr. Jin Huiming and 30% as to Ms. Jin Ling; 18% owned by Fast Rich International Development Limited (迅富國際發展有限公司), which is wholly-owned by Mr. Jin Jianming; 10% owned by Fast Wealthy Holdings Limited (迅寶集團有限公司), which is jointly-owned as to 60% by Ms. Chen Ning and 40% by Mr. Chen Chen; and 22% owned by United Win Development Limited (聯勝發展有限公司), which is wholly-owned by Mr. Jin Huiming, who are Independent Third Parties.
- (v) Saturn Group Business Limited (0.40%) is an exempted investment holding company incorporated under the laws of BVI and is 95.45% owned by Vision Knight Capital (China) Fund II (L.P.) and 4.55% owned by Vision Knight Capital (China) Entrepreneur Fund II (L.P.). The general partner of both Vision Knight Capital (China) Fund II (L.P.) and Vision Knight Capital (China) Entrepreneur Fund II (L.P.) is Vision Knight Capital (China) GP II (L.P.), which is an Independent Third Party.
- (vi) Taiying Holding Limited (0.38%) is a business company incorporated under the laws of BVI and jointly-owned as to 3.75% by Mr. Wang Pei, 52.25% by Ms. Zhou Lixia, 1.5% by Mr. Zhou Lifeng and 42.5% by Mr. Wu Yi, who are Independent Third Parties.
- (vii) BA Capital Fund III, L.P. (0.3%) is a limited partnership involved in investment holding established under the laws of the Cayman Islands. BA Capital Limited is the general partner, which is indirectly owned as to 40% by Mr. He Yu, our non-executive Director.
- (viii) Kenny Wong Holding Limited (0.27%) is a company incorporated under the laws of BVI and wholly-owned by Mr. Kenny Wong, who is an Independent Third Party.
- (ix) Lee Chun Kiu Holding Limited (0.24%) is a company incorporated under the laws of BVI and wholly-owned by Ms. Lee Chun Kiu, who is an Independent Third Party.
- (x) Phoenix Aurora Limited (0.20%) is a company incorporated under the laws of the BVI and wholly-owned by Golden Ocean Global Limited, which is wholly-owned by Breeze Venture Limited, which is wholly-owned by Mr. Xu Pei Feng, who is an Independent Third Party.
- (xi) Gabrielle Wang Holding Limited (0.10%) is a company incorporated under the laws of BVI and jointly-owned as to 95% by Mr. Hou Dingzhong and 5% by Ms. Wang Ming, who are Independent Third Parties.
- (xii) Maxtin Holdings Limited (0.09%) is a company incorporated under the laws of BVI and wholly-owned by Mr. Mai Gang, a former director of Beijing Pop Mart who serve until November 2018, who is an independent third party.
- (xiii) Justin Moon Holding Limited (0.08%) is an exempted investment holding company incorporated under the laws of BVI and wholly-owned by Mr. Duk II Moon, our vice president of overseas business department.
- (xiv) How2work Holding Limited (0.05%) is a limited investment holding company incorporated in Hong Kong and wholly-owned by Mr. Lee Howard, who is an Independent Third Party.
- (xv) Lead Accomplish Limited (0.04%) is an exempted investment holding company incorporated under the laws of BVI and wholly-owned by Ms. Yuan Lingyun, who is an Independent Third Party.

HISTORY, REORGANIZATION, AND CORPORATE STRUCTURE

OUR STRUCTURE IMMEDIATELY FOLLOWING THE [REDACTED]

The following diagram illustrates the corporate and shareholding structure of our Company and our major subsidiaries immediately following the completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] is not exercised and no Shares are issued under the [REDACTED] Share Award Scheme):



Notes:

(1)-(20): Please refer to notes(1)-(20) on pages 151 to 153 for details.

BUSINESS

OUR MISSION

To light up passion and bring joy.

OUR VISION

To become a leading global pop culture entertainment company.

OVERVIEW

We are the largest and fastest-growing pop toy company in China, in terms of revenue in 2019 and revenue growth from 2017 to 2019, respectively, according to the Frost & Sullivan Report. IP is at the core of our business. We have established an integrated platform covering the entire industry chain of pop toys, including artists development, IP operation, consumer access and pop toy culture promotion, through which we light up the passion of fans and bring them joy.

As a pioneer and key promoter of pop toy culture in China, we have inspired people's passion for pop culture and pop toy, and led the rapid development and large-scale commercialization of pop toys in China. According to the Frost & Sullivan Report, "Pop Mart" has become the most popular pop toy brand in China. Leveraging our industry influence and resources, we have launched and hosted the largest pop toy convention in China in terms of visits according to the Frost & Sullivan Report. Through our membership program, online pop toy community, and various pop toy culture events hosted by us, we have formed a large and engaging fan community.

Leveraging our integrated platform and market leading position, we have attracted and maintained a pool of high-quality IP resources in the pop toy industry by working with our artists, established IP providers and our in-house design team. As of the Latest Practicable Date, we operated 85 IPs, including 12 proprietary IPs, 22 exclusive licensed IPs and 51 non-exclusive licensed IPs.

Our strong IP operation capabilities are essential to the successful commercialization of our IP pool and enable us to maintain a competitive advantage. We continuously create original, unique and entertaining pop toy products based on our IPs, which in turn promote their popularity and enhance their commercial value. Because of the wide popularity of our IPs, we are able to collaborate with well-known companies across various industries to explore additional monetization opportunities and to further promote our IPs.

We have established a comprehensive and extensive sales and distribution network to reach our consumers. As of December 31, 2019, our sales and distribution network consisted of (i) 114 retail stores in 33 cities in China, primarily located at major commercial districts in first-tier and second-tier cities; (ii) 825 innovative roboshops in 57 cities which help us expand our consumer access and provide engaging and playful shopping experiences for our fans; (iii) fast-growing online channels, including our Tmall flagship store, Pop Draw, Paqu and other mainstream e-commerce platforms in China; (iv) our BTS and STS conventions; and (v) wholesale

BUSINESS

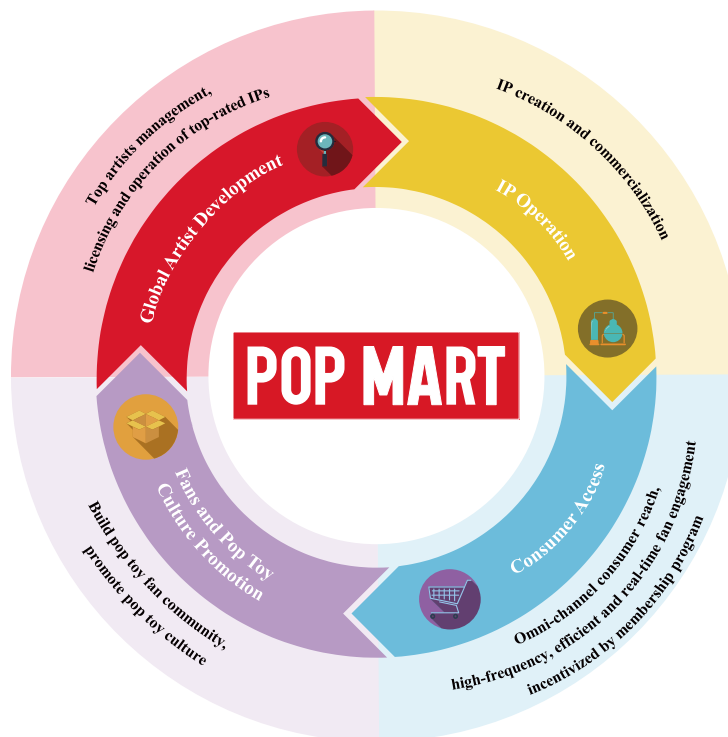
channels, primarily consist of 22 distributors in China and 19 distributors in 21 overseas countries and regions such as Korea, Japan, Singapore and the United States.

We are dedicated to promoting pop toy culture, which enhance our brand awareness, solidify our industry-leading position and strengthen our commercialization capabilities. We are relentless to attract and build a fast-growing, young and passionate fan base. We have also established a membership program with a variety of membership benefits to enhance the stickiness of our fan community and create privileged shopping experiences. As of December 31, 2019 and the Latest Practicable Date, we had a total of 2.2 million and 3.2 million registered members, respectively.

Leveraging our integrated platform covering the entire industry chain of pop toys, our business achieved rapid growth during the Track Record Period. Our total revenue increased by 225.4% from RMB158.1 million in 2017 to RMB514.5 million in 2018, and further increased by 227.2% to RMB1,683.4 million in 2019. We recorded net profit of RMB1.6 million, RMB99.5 million and RMB451.1 million in 2017, 2018 and 2019, respectively.

OUR PLATFORM

We have established an integrated platform covering the entire industry chain of pop toys, including artists development, IP operation, consumer access, and pop toy culture promotion.



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- *Global artist development:* We are dedicated to proactively exploring global artists with commercial prospects through inviting artists to our pop toy conventions, organize design competitions and collaborating with top art colleges to give lectures and courses, among others. In addition, our artist development capabilities enable us to reach to local artists across the globe. Outstanding artists are also attracted by our integrated pop toy platform which can bring their works to mass market. Based on first-hand market feedback and our professional judgment, we are able to engage groundbreaking and arising artists globally.
- *IP creation and operation:* We continuously create original, unique and entertaining pop toy products based on our IPs by mobilizing the resources on our integrated platform as well as our leading product design and development capabilities, which in turn extends the popularity and commercial value of our IPs. Our in-house creative and industrial design team work closely with our artists to develop pop toy products by providing feedback and suggestions based on our first-hand consumer insights and market trends. We have also attracted and established solid licensing relationships with many renowned global content providers, such as Disney and Universal Studios. In addition to pop toy products, because of the wide popularity of our IPs, we are able to collaborate with well-known companies across various industries through IP licensing to explore diversified monetization opportunities as well as to further promote our IPs.
- *Consumer access:* After years of operation, we have established a comprehensive and extensive sales and distribution network, including retail stores, roboshops, online channels, pop toy conventions and wholesale channels, which primarily include our distributors. In addition to long-term retail stores and roboshops, 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 awareness. Our online channels, including Tmall flagship store, Pop Draw, Paqu and other mainstream e-commerce platforms in China, provide a convenient and fun shopping experience. Moreover, we endeavor to utilize the established access of our distributors to local markets to expand the breadth and depth of our global presence.
- *Fans and pop toy culture promotion:* As a pioneer and key promoter of pop toy culture in China, we are dedicated to promoting pop toy culture and have attracted a fast-growing and passionate fan base. Our BTS and STS have become the largest pop toy conventions in China in terms of visits, according to the Frost & Sullivan Report. We also launched Paqu, an online community for fans, to access pop toy culture information and updates, trade pop toys and engage in social interaction with other fans alike. Moreover, we also organize design competitions and collaborate with top art colleges in China to give lectures and courses to engage more fans into pop toy culture and to cultivate emerging artists. We have also established membership program with a variety of membership benefits to enhance the stickiness of our fan community and create privileged shopping experiences for their repeat purchases.

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OUR STRENGTHS

Pioneer of Pop Toy Culture in China

As a pioneer and key promoter of pop toy culture in China, we have inspired people's passion for pop culture and pop toy, and led the rapid development and large-scale commercialization of pop toy culture in China. According to the Frost & Sullivan Report, our "Pop Mart" brand has become the most popular pop toy brand in China. Leveraging our industry influence and resources, we have launched and hosted the largest pop toy conventions in China in terms of visits, according to the Frost & Sullivan Report, and have formed a large and engaging fan community.

- *Top artist development:* We have gathered top artists in the pop toy industry and formed in-depth cooperation with them. Working with the artists, we have created blockbuster IPs favored by fans including "Molly," "PUCKY," "Dimoo" "the Monsters." As of the Latest Practicable Date, we maintained close relationships with more than 350 artists, among whom we had cooperation with 25 talented artists across the world through licensing or cooperation arrangements.
- *Excellent track record of IP development and operation:* As of the Latest Practicable Date, we operated 85 IPs. In 2019, revenue generated from each of our top 4 IPs exceeded RMB100 million. With our strong IP development and operation capabilities, we expect to operate more than 30 new IPs in 2020.
- *Extensive consumer access:* We have established a comprehensive and extensive sales and distribution network. We also have a membership program, with 3.2 million registered members as of the Latest Practicable Date, to build our fan community, enhance their stickiness, and incentivize repeat purchases through a variety of membership benefits. Our omni-channel sales and distribution network and marketing initiatives enable us to accommodate consumer needs, effectively reach out to our target consumers and provide consumers with a convenient and entertaining shopping experience.

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- *Pop toy culture promotion:* We are dedicated to promoting pop toy culture and have attracted a fast-growing and passionate fan base. Our BTS and STS have become the largest pop toy conventions in China in terms of visits, according to the Frost & Sullivan Report. In the absence of large scale pop toy events in China, we launched our first pop toy convention, BTS, in September 2017. Since then, we host two pop toy conventions each year, namely BTS and STS. Our 2019 BTS attracted more than 270 artists from 14 countries and regions, more than 200 pop toy brands, and over 100,000 visits, according to the Frost & Sullivan Report. We launched Paqu, an online community for fans to access pop toy culture information and updates, trade pop toys and engage in social interaction with other fans alike. Other than our pop toy community and conventions, we have hosted a total of 44 exhibitions and artist autograph sessions across China as of December 31, 2019. Moreover, we also organize design competitions and collaborate with top art colleges in China to give lectures and courses to engage more fans into pop toy culture and to cultivate emerging artists.

Leveraging our integrated platform covering the entire industry chain of pop toys, our business achieved rapid growth during the Track Record Period. Our total revenue increased by 225.4% from RMB158.1 million in 2017 to RMB514.5 million in 2018, and further increased by 227.2% to RMB1,683.4 million in 2019. We recorded net profit of RMB1.6 million, RMB99.5 million and RMB451.1 million in 2017, 2018 and 2019, respectively. According to the Frost & Sullivan Report, in 2019, we ranked the first in the pop toy retailing market in China with a market share of 8.5% measured by retail value.

Strong IP Creation and Operation Capabilities

Backed by our strong IP creation and operation capabilities, we have established a leading position and sound industry reputation, which in turn attract more leading artists and high-quality IP providers to build long-term cooperation relationship with us, effectively forming a virtuous circle from IP creation to IP operation.

Our IPs are created by our artists, established IP providers and our in-house design team. In addition to being attracted by our integrated platform, we also actively seek to engage and collaborate with arising artists we identified based on first-hand market feedback and our professional judgment and established IP providers, such as Disney and Universal Studios, to commercialize their IPs to mass market and/or recreate and further monetize their IPs. Our creative and industrial design team work closely with artists and established IP providers and are able to layer our fun and unique style onto their IPs to create product designs that resonate with our fans.

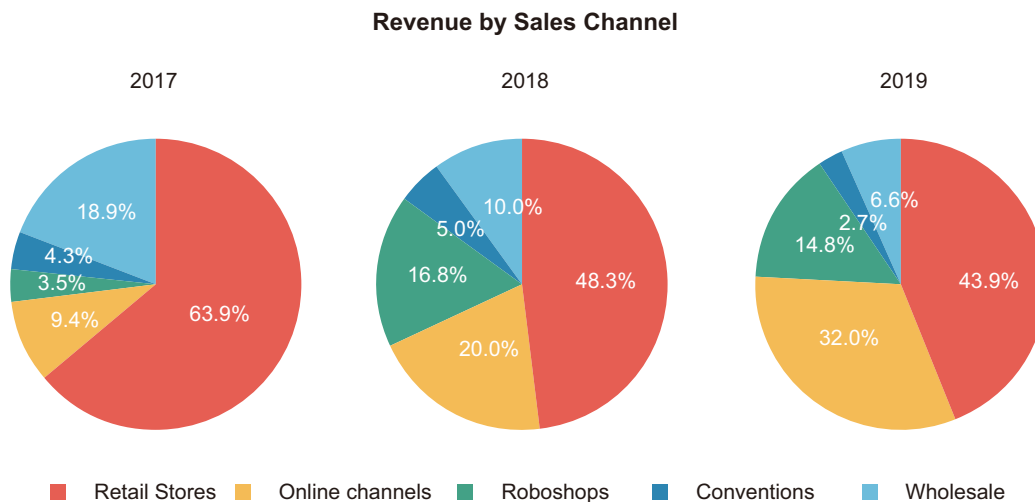
Leading pop toy product design and development capabilities and proven commercialization capabilities enable us to create original, unique and entertaining pop toy products and ensure the continuous popularity of our IPs. Successful development and operation of IPs require efficient and professional management of the operational cycle and close cooperation among various fields including design, product development, industrial production, product sales and marketing. Our integrated platform covering the entire value chain of pop toys enables us to boost the

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commercial value of IPs and effectively enhances the awareness and monetization capabilities of IPs. For example, we cooperated with Mr. Kenny Wong, the creator of Molly, and started commercialization of Molly at a large scale in 2016. As a result of our IP creation and operation efforts, Molly has become one of our iconic IPs and our revenue generated from self-developed pop toy products based on Molly amounted to RMB456.0 million in 2019. Through pop toy conventions and Paqu, we can obtain first-hand feedback of our products. Furthermore, we continue to enhance the awareness and commercial value of IPs we operate through licensing or other cross-border cooperation with established business partners.

Comprehensive and Extensive Consumer Access through Omni-channel Sales and Distribution Network

Our omni-channel sales network and marketing initiatives enable us to accommodate consumer needs, effectively reach out to our target consumers and provide consumers with a convenient and entertaining shopping experience. The following charts illustrate our revenue contribution by each of our sales channels as percentage of total revenue for the periods indicated:



As of December 31, 2019, we had 114 retail stores in 33 cities in China, primarily located at major commercial districts in first-tier and second-tier cities. Our retail stores are our primary sales channel which provides the widest selection of products to meet the needs of different customers. Moreover, retail stores are also an important channel for us to establish brand image and build connections with our fans. As of December 31, 2019, we also had 825 roboshops. As compared to retail stores, roboshops incur lower upfront costs and ongoing operating expenses in terms of rental fees, personnel expenses and maintenance fees. As a result, we are able to efficiently and quickly expand our roboshop network, which can reach regions not covered by our retail stores. Moreover, the sales performance and market feedback generated by our roboshops provides valuable data insight for our retail store expansion strategies. We may open retail stores to replace roboshops with high sales volume.

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Our fast-growing online channels, including Tmall flagship store, Pop Draw, Paqu and other mainstream e-commerce platforms in China, provide convenient and fun shopping experiences. In 2019, revenue generated from our Tmall flagship store, one of our key channels to attract new fans, amounted to RMB251.5 million and ranked first among all flagship stores of toy brands on Tmall in terms of retail value, according to the Frost & Sullivan Report. Pop Draw has experienced robust growth since its launch in September 2018. Revenue generated from Pop Draw increased from RMB23.0 million in 2018 to RMB271.2 million in 2019. Furthermore, the most passionate fans are gathered on Paqu, our online community which features pop toy culture information and updates, e-commerce and social interaction.

Moreover, we are actively expanding the breadth and depth of our global presence. As of December 31, 2019, we had established an extensive distribution network covering 21 overseas countries and regions.

Vibrant Fan Base with High Stickiness

We have attracted a vibrant fan base with high stickiness through our multi-channel membership program and frequent, efficient and real time communications with our fans through various online and offline channels. Our fans share the fun and art they enjoy from our products with their friends and families, which further expands our fan base. The number of our registered members experienced rapid growth during the Track Record Period from 0.3 million as of December 31, 2017 to 0.7 million as of December 31, 2018 and further increased to 2.2 million as of December 31, 2019. As of the Latest Practicable Date, we had 3.2 million registered members.

Our passionate fan base primarily consists of people aged between 15 and 35 with high spending power and willingness to share and display, according to the Frost & Sullivan Report. Our fans are attracted by the artistic styles and fun features of our products, which result in high customer loyalty and repeat purchases. Moreover, our membership program offers a variety of membership benefits creating privileged shopping experiences. As a result, in 2019, the overall repeat purchase rate for our registered members was 58%.

Best-positioned to Capture Market Growth Worldwide with Global Operation Capabilities

In recent years, amid the backdrop of promoting diversity and personality, a growing population around the world become more open and passionate about various forms of pop toy culture. As a result of increasing acceptance of pop toy culture, the global pop toy retailing market has experienced rapid growth. According to the Frost & Sullivan Report, the market size of the global pop toy retailing market grew from US\$8.7 billion in 2015 to US\$19.8 billion in 2019, representing a CAGR of 22.8%, and is expected to further increase to US\$44.8 billion in 2024, representing a CAGR of 17.7%. Specifically, the Chinese pop toy retailing market has experienced more rapid growth, from RMB6.3 billion in 2015 to RMB20.7 billion in 2019, representing a CAGR of 34.6%, and is expected to further increase to RMB76.3 billion in 2024, representing a CAGR of 29.8%.

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The enhancing engagement of pop toy culture and its increasing presence on social media bring market opportunities and potentials for the commercialization of IPs. Furthermore, development of e-commerce and increased cultural acceptance arising from the globalization of social media will bring more consumers and fans in the PRC and around the world and a more diverse consumption structure for pop toy.

We are best-positioned to capture the growth in global pop toy market. Our global artist pool and the cross-cultural and cross-linguistic nature of our IPs provide us with a natural advantage in respect of extending our sales of products from China to the global market along with the expansion of our global presence. We started our global expansion in the third quarter of 2018 and have since established a global presence in over 21 overseas countries and regions as of December 31, 2019. In particular, our strategic expansion in Korea and Southeast Asia has achieved gratifying results.

Visionary Management Team

Our visionary management team leads the development of pop toy industry in China and has established the industry standards. Their in-depth understanding of market preferences and industry trends, as well as insights into IP creation and operation, are key reasons to our leading position in the pop toy industry in China.

Our management team is young and energetic and has extensive experience in the retail industry and IP operation. As of the Latest Practicable Date, the average age of our senior management was around 35, with an average of approximately ten years of relevant industry experience. Under the leadership of Mr. Wang, our management team is very cohesive, driving our rapid development and cultivating a vigorous, creative and talent-oriented corporate culture within our Company.

OUR STRATEGIES

In order to fulfill our mission, achieve our vision, and further consolidate our leading position, we propose to implement the following strategies:

Further Enhance Artist Development and IP Creation and Operation Capabilities

IP is at the core of our business and critical to our future growth. In terms of artist development, we will continue to enhance our industry influence and strengthen marketing efforts to attract more artists to our platform. At the same time, we also plan to expand our in-house artist development team, enhancing our ability to identify outstanding artists. Moreover, we plan to strengthen our appeal and long-term relationship with artists.

In addition, we also plan to recruit talented designers to join our in-house design team to enhance our in-house IP development capability and increase the number of our proprietary IP to further expand our IP pool.

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In terms of IP operation, we are dedicated to strengthening our IP re-design and commercialization capabilities and to extending the lifecycle of our IPs. In this regard, we plan to increase our efforts to launch more product series, and explore more monetization opportunities through IP licensing. Besides, we also plan to strengthen collaboration between IPs to effectively utilize the fan bases covered by multiple IPs.

Expand Consumer Access Channels and Overseas Markets

The breadth, depth and effectiveness of the consumer access channel is critical to our success and development prospect. With the development of the pop toy culture, demands from pop toy fans are increasing and diversifying. Therefore, we plan to enhance our omni-channel consumer access network to better serve the preferences and needs of our fans.

For our retail stores and roboshops, we plan to continue to increase the number of stores in first- and second-tier cities and to effectively grasp the huge development potentials by enhancing penetration in third- and fourth-tier cities in China. At the same time, we will further develop online channels and continue to focus on online interactive entertainment features to enhance the shopping convenience and experience for fans.

In respect of overseas markets, we plan to expand our business into markets in Asia, Europe and America. We will develop expansion plans tailored to different overseas markets. For example, we have established joint ventures in Korea and Singapore, engaged distributors in Japan and Thailand, and opened retail stores in certain other overseas areas. We also offer differentiated product portfolios based on preferences of fans in different countries and regions.

Broaden Product and Service Offerings

To capture the enormous monetization potential of fan economy, we will continue to broaden the commercialization of IPs and diversify our sources of income. We are committed to becoming the preferred partner for more globally renowned IP providers such as to enter the Chinese market, and to develop more product categories on our integrated platform. Leveraging the wide popularity of our IPs, we have been licensing our IPs out to our partners to expand monetization opportunities. In the future, we plan to license more IPs and expand opportunities for collaboration in other forms.

Expand Fan Base and Enhance Fan Experience

In order to attract new fans and increase loyalty for existing fans, we plan to strengthen our marketing efforts to enhance brand influence. We are able to attract fans through the pop toy conventions, autograph sessions, exhibits and other promotional activities. We will also optimize our membership program and traffic management scheme, establish connection and enhance interaction with fans. Meanwhile, we plan to further promote our Paqu, where we connect with fans and encourage interactions among them. We will also devote our efforts in strengthening our data capabilities to better understand and accommodate the demands of our fans. Furthermore, in order to increase the stickiness of core fans, we will continue to

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launch more self-developed products, and enhance the shopping experience of our fans through innovative gameplay.

Attract, Cultivate and Retain Talents

In line with our business growth, we will continue to attract, cultivate and retain talents in areas of design, sales and marketing, IP operations and research and development. We continue to pursue our strategy to focus on cultivating talent through in-house training, supplemented by outside recruitment. We will collaborate with professional institutions to provide comprehensive training programs to our employees.

We want to share our success with our employees. To achieve this goal, we plan to implement a variety of incentives, including a broad long-term stock incentive plan and a tailored compensation plan with more comprehensive assessment indicators. We also strive to create a supportive work environment for our employees and encourage their creativity and entrepreneurial spirit by providing career guidance, professional training and mentoring courses.

Selectively Pursue Strategic Alliances, Acquisitions and Investments

To achieve our growth strategy, we plan to selectively pursue strategic alliances, acquisitions, and investments along the value chain of the pop toy industry. For example, we are open to potential acquisition opportunities, such as popular and promising IPs to expand our IP pool, artist agencies to reach out to more outstanding artists, industrial design studios to improve our industrial design capacity, and overseas sales channels expansions. In selecting acquisition and investment targets, our general considerations are as follows: suitability with our strategic planning, degree of potential synergies, market position, experience of management team, valuation, historical operational indicators and financial performance. As of the Latest Practicable Date, we did not have any specific acquisition or investment targets.

OUR IPs

IP Pool

IP is at the core of our business. Leveraging our integrated platform as well as our leading position, we have attracted and maintained a pool of high quality IP resources in the pop toy industry. As of the Latest Practicable Date, we operated 85 IPs, consisting of (i) proprietary IPs; (ii) exclusive licensed IPs; and (iii) non-exclusive licensed IPs.

Proprietary IPs. Our proprietary IPs include (i) iconic IPs acquired by us such as Molly and Dimoo, which evolve over time when the original artists continue to refine them and create new editions, and (ii) IPs developed by our in-house design team, such as Yuki and BOBO&COCO. In July 2018, we acquired ownership of the intellectual property rights of Molly in China, and later in April 2019, we acquired ownership of the intellectual property rights of Molly in the rest of the world. For proprietary IPs, we enjoy full intellectual property rights, including the rights to

BUSINESS

develop and sell pop toys and license out for additional monetization opportunities. For details, see “— IP Operations — IP Licensing” and “— IP Creation.”

In 2017, 2018 and 2019, revenue generated from self-developed products based on our proprietary IPs amounted to RMB41.0 million, RMB215.7 million and RMB627.0 million, respectively, accounting for 89.3%, 63.4% and 45.3% of our total revenue generated from self-developed products, respectively.

As of the Latest Practicable Date, we had 12 proprietary IPs. The table below sets forth our major proprietary IPs:

MAJOR PROPRIETARY IPs



MOLLY



DIMOO



BOBO&COCO



YUKI

Exclusive Licensed IPs. Our exclusive licensed IPs, such as PUCKY, the Monsters and SATYR RORY are created by artists we cooperate with. We enter into license agreements with selective artists, which generally provide us exclusive rights to develop and sell pop toy products based on such IPs in China, and as the case may be, in other specified regions. For most of our exclusive licensed IPs, we may also sub-license them in specified areas for additional monetization opportunities. For details, see “— IP Operations — IP Licensing” and “— IP Creation — Our Artists.”

In 2017, 2018 and 2019, revenue generated from self-developed products based on our exclusive licensed IPs amounted to RMB4.8 million, RMB106.2 million and RMB597.4 million, respectively, accounting for 10.5%, 31.2% and 43.2% of our total revenue generated from self-developed products, respectively.

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As of the Latest Practicable Date, we operated 22 exclusive licensed IPs. The table below sets forth the details of our major exclusive licensed IPs:

MAJOR EXCLUSIVE LICENSED IPs



PUCKY



THE MONSTERS



SATYR RORY

Non-exclusive Licensed IPs. Our non-exclusive licensed IPs include popular characters such as Mickey Mouse, Despicable Me and Hello Kitty. We have maintained strong licensing relationships with established IP providers, such as Disney and Universal Studios. We generally enter into non-exclusive license agreements with these IP providers which grant us the non-exclusive right to develop and sell pop toy products based on their IPs in China, and as the case may be, in other specified regions. Typically we are not allowed to sub-license our non-exclusive licensed IPs. For details, see “— IP Operations — IP Licensing” and “— IP Creation — Established IP Providers.”

In 2018 and 2019, revenue generated from self-developed products based on our non-exclusive licensed IPs amounted to RMB18.2 million and RMB159.8 million, respectively, accounting for 5.4% and 11.5% of our total revenue generated from self-developed products, respectively. As of the Latest Practicable Date, we operated 51 non-exclusive licensed IPs. The table below sets forth our major non-exclusive licensed IPs:

MAJOR NON-EXCLUSIVE LICENSED IPs



MICKEY MOUSE



DESPICABLE ME



HELLO KITTY

BUSINESS

The following table sets forth a breakdown of our revenue generated from self-developed pop toy products by IPs for the periods indicated:

	Years ended December 31,					
	2017		2018		2019	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except for percentages)</i>					
Proprietary IPs						
Molly	41,019	89.4	213,893	62.9	456,018	32.9
Dimoo	–	–	–	–	100,085	7.2
BOBO & COCO	–	–	–	–	25,454	1.8
Yuki	–	–	746	0.2	23,076	1.7
Others	2	0.0	1,074	0.3	22,394	1.6
Subtotal	41,021	89.4	215,714	63.4	627,027	45.3
Exclusive licensed IPs						
PUCKY	–	–	75,075	22.1	315,318	22.8
The Monsters	–	–	–	–	107,846	7.8
SATYR RORY	–	–	6,893	2.0	63,086	4.6
Others	4,843	10.6	24,254	7.1	111,112	8.0
Subtotal	4,843	10.6	106,222	31.2	597,362	43.2
Non-exclusive licensed IPs	–	–	18,213	5.4	159,820	11.5
Total self-developed products	45,864	100.0	340,149	100.0	1,384,209	100.0

For the purpose of presenting the breakdown of revenue from self-developed products by IP categories during the Track Record Period, the categorization of an IP is based on its status as of the Latest Practicable Date.

IP Operations

We have established an integrated platform which covers the entire value chain of IP operations, improving the commercial value of our IPs and enhancing the brand awareness and monetization capabilities of our IPs. Our IP operational excellence, professional team and efficient management of the entire operation cycle are essential to the successful IP commercialization and enables us to maintain a competitive advantage.

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Product Design and Development

Design and Development

We continuously create original, unique and entertaining pop toy products based on our IPs by leveraging our integrated platform as well as our leading product design and development capabilities, which in turn extends the popularity and commercial value of our IPs.

While our artists create the initial artistic designs of our pop toy products, our integrated pop toy platform transforms such artistic designs into commercialized products and achieves the commercial value of such IPs. As of December 31, 2019, we maintain an in-house creative design and industrial development team consisting of 91 members. With our in-depth industry insights, outstanding designing capabilities and extensive IP operation experiences, we are able to inspire our artists and together create successful IPs both artistically and commercially. Through a typical process of developing pop toy products based on our proprietary IPs and exclusive licensed IPs, we first receive two-dimensional draft sketches from our artists. Based on our first-hand insights on fan preferences and market trends, we provide feedback and suggestions on the draft sketches. Then, our in-house creative design team works closely with our artists to refine their character designs from both commercial and artistic perspectives. Finally, our in-house industrial design team works on the color, three-dimensional design and moulds for the final commercialized design before mass production and release to the market.

With respect to non-exclusive licensed IPs, our creative design team and industrial design team layer our fun and unique design style onto such IPs to create product designs that resonate with our fans. For example, we collaborated with Disney and launched "Sitting Babies Series 1 — Mickey Family" blind box series in March 2019. Our creative and industrial design team redesigned the famous Disney characters, such as Mickey Mouse, and developed pop toy products of sitting baby characters.

We control and oversee the end-to-end process of pop toy development to ensure the quality and efficiency, including improving and finalizing product design with our artists or IP providers, developing the product prototype, and coordinating manufacturing with our selected third-party manufacturers.

Product Offerings

We develop a broad array of pop toy products based on our IPs. We believe toys have wide appeal to different age groups, and our artistic and collectible pop toys are able to attract grown-ups as well as young generations. Our self-developed pop toy products are primarily categorized into the following categories:





- *Blind box.* We develop multiple series of blind box products based on our IPs. The number of product series of each IP varies, typically ranging from one to seven series each year, depending on demands and popularity. Each series of our blind box products has a unique theme and generally contains twelve

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different designs, including a specially designed "hidden edition.". With identical blind box packaging for all designs under the same series, our fans do not know which specific design from a series they will be receiving. Because of such unpredictability, blind boxes increase the fun as well as attract repeat purchases.

- *Action figures.* For certain popular IPs, we develop and sell action figures. Compared to blind boxes, action figures are larger in size and more expensive. Action figures are also designed in more delicate and artistic styles, manufactured with more sophisticated materials, and usually exposed to high-end consumers.
- *BJDs.* BJDs are dolls articulated with ball and socket joints, featuring movable bodies. Most BJDs are made with easily removable clothing, wigs, eyes and limbs, allowing customization for collectors.
- *Accessories.* We also develop various pop toy accessories featuring popular IPs and functionalities, such as hang tags, pins and fluffy pendants.

The following table sets forth certain information on the principal categories of our self-developed pop toy products:

SELF-DEVELOPED POP TOY PRODUCTS				
	BLIND BOX	ACTION FIGURE	BJD	ACCESSORY
SIZE	4.5-9.5 CM	OVER 10 CM	10-20 CM	VARIOUS
PRICE	RMB49-RMB99	RMB199-RMB1,499	RMB399-RMB799	RMB6-RMB389

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Pricing of Our Products

The price of our pop toy products are determined based on various factors, including materials, sizes, license fees and manufacturing and operation costs. Blind box is the entry level product with relatively low prices. We offer different tiers of products with varied collectible features tailored for fans with different preferences.

Seasonality

We typically experience higher sales of our pop toy products in the second half of each year, particularly during holiday seasons and major promotion events such as Tmall Singles Day.

IP Licensing

Leveraging the wide popularity of our IPs, we collaborate with well-known companies across various industries to explore diversified monetization opportunities and to further promote our IPs. Specifically, we may license our proprietary IPs and sub-license our exclusive licensed IPs out to our partners to expand monetization opportunities. For example, in 2019 we granted Yili the right to use Molly to promote a flavored milk drink product. For details, see “— Blockbuster IP: Molly.”

For sub-licensing our exclusive licensed IPs, our licensing contracts typically provide that our partners shall pay us a fixed license fee, which will be shared with our artists according to the relevant exclusive license agreements between the artists and us.

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Blockbuster IP: Molly

Molly is a cute little girl with distinctive pouting lips and big lake-blue eyes. She is a painter and wants to paint a world of her own using her unique artistic vision. In 2006, Molly was created by Mr. Kenny Wong, a groundbreaking Hong Kong artist. Since 2006, Mr. Kenny Wong developed various series of customized and well sought-after pop toys based on Molly. However, the sales and distribution of such toys remained at a small scale due to manufacturing cost constrains and limited commercialization opportunities.

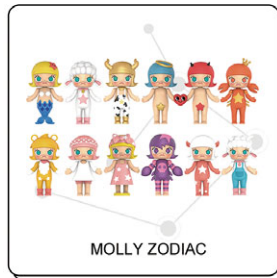
Realizing the great potentials of Molly through our market insights and experiences, in April 2016, we entered into an exclusive license agreement with Mr. Kenny Wong and started commercialization of Molly at a large scale. Pursuant to the agreement, we are entitled to develop and sell pop toy products based on Molly, and we shall pay Mr. Kenny Wong a fixed annual fee and design fees based on the products we sell. In August 2016, we launched the first "Molly Zodiac" blind box series and achieved success. Molly has become one of our iconic IPs ever since.

After the successful debut, we started to tailor comprehensive IP operation plans around Molly. In 2017, 2018 and 2019, we launched seven, six and five blind box series for Molly. In addition, we also developed various series of action figures and accessories including trading cards and badges for Molly during the Track Record Period. We promoted collaborations between Molly and other world-renowned IPs such as "Mickey and Minnie", "Despicable Me" and "Hello Kitty". In July 2018, we acquired ownership of the intellectual property rights of Molly in China, and later in April 2019, we acquired ownership of the intellectual property rights of Molly in the rest of the world. Pursuant to the intellectual property rights transfer agreement, Mr. Kenny Wong will continue to cooperate with us in designing and developing product series based on Molly going forward. In 2017, 2018 and 2019, our revenue generated from self-developed products based on Molly amounted to RMB41.0 million, RMB213.9 million and RMB456.0 million, respectively, representing a CAGR of 242.1%.

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Furthermore, we have also been exploring additional IP monetization opportunities for Molly through licensing. For example, in 2019, we licensed Molly to Yili, a leading dairy company in China, and granted Yili the right to use Molly to promote a flavored milk drink product. We have also been proactively seeking opportunities to license Molly to other selected third parties for adaption into other entertainment formats.

POP TOY PRODUCTS



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Blockbuster IP: PUCKY

PUCKY is an elf in a dream forest world. At the end of the winter, the lake of ice is melting, and the elves in the dream forest wake up from a long dream of hibernation. PUCKY was created by a talented female Hong Kong artist.

We were impressed by her creative work and entered into exclusive license agreement with her in 2017. In April 2018, we launched the first "PUCKY Pool Babies" blind box series. Our "PUCKY Xmas Babies" blind box series, launched as a limited edition on the "Singles Day Shopping Festival" on our Tmall flagship store, was one of our hottest products, and a total of 5,000 units were sold out in just one minute. In 2018, we hosted two PUCKY-themed exhibits in Beijing and Hangzhou to further enhance its popularity. In 2018 and 2019, we launched three and six blind box series for PUCKY, respectively. In 2018 and 2019, our revenue generated from PUCKY amounted to RMB75.1 million and RMB315.3 million, respectively. In addition to pop toy products, we also sub-license PUCKY to further enhance our IP monetization capability.

POP TOY PRODUCTS



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IP Creation

Our IPs are created by our artists, established IP providers and our in-house design team.

Our Artists

The artists we cooperate with are the primary creators of our IPs. As of the Latest Practicable Date, we maintained close relationships with more than 350 artists, among whom we had cooperations with 25 talented artists across the world through licensing or cooperation arrangements, allowing us to secure excellent IPs in the long run.

As artists are key to our successful business operations, we are dedicated to discovering groundbreaking and arising artists globally with commercial prospects. Our artists are specialized in visual arts such as painting, sculpture work and crafts. Many of them have received numerous awards and recognitions all over the world, and have gathered a significant fan base. Historically, these artists work at small studios and have limited monetization opportunities for their work. Leveraging our leading market position, established monetization channels, extensive sales network and large fan base, we help bring their works to the mass market.

To identify artists with commercial prospects, our in-house artist development team consisting of over 20 personnel as of December 31, 2019 proactively looks for talents globally. In this regard, our efforts include inviting global artists to our pop toy conventions, organize design competitions and collaborating with top art colleges to give lectures and courses, among others. Our artist development capabilities extend our reach to local artists across the globe.

We conduct complete assessments on artists before entering into contracts with them. Based on first-hand market feedback from our conventions, exhibits and Paqu, their fan followings and our professional judgment, we selectively cooperate with groundbreaking and arising artists. We either enter into intellectual property transfer agreements or exclusive license agreements with our artists. For popular or promising IPs, we may acquire ownership of the intellectual property rights of such IPs. As of the Latest Practicable Date, we have acquired two IPs from our artists. Key terms of our intellectual property transfer agreement with artists are summarized as follows:

- *Intellectual property rights.* Our artists shall transfer all intellectual properties of their IPs in China, and, as the case may be, other specified regions. The intellectual property rights of the products we developed are owned by us.
- *Transfer fee.* We shall pay our artists a fixed amount transfer fee, the price of which is negotiated on a case-by-case basis.
- *Cooperation.* After the transfer of intellectual property, our artists will continue to cooperate with us in designing and developing pop toy products based on the underlying IPs, and shall receive capped design fees based on our sales of the products.

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In addition, we also enter into exclusive license agreement with our artists. We decide the scope and term for each license agreement based on (i) the popularity of the artist, (ii) the artist's ability to constantly produce creative work, (iii) the commercialization potential of the IP in terms of pop toy products, and (iv) other licensing opportunities for the IP. We typically enter into exclusive license agreements with our artists, key terms of which are summarized as follows:

- *Exclusive rights.* The exclusive license agreements with our artists provide us the exclusive rights to develop and sell pop toys based on their IPs during the term of the agreements.
- *Sub-license.* Under most of the exclusive license agreements, we are also granted the right to sub-license their IPs to third parties.
- *Term.* The initial term of the license agreement is typically four years, which may be extended to six years or longer.
- *Fee arrangement.* Under our license agreements with artists, typically our artists receive a capped design fee based on the number of products we sell.
- *Intellectual property rights.* The intellectual property rights are owned by our artists and the intellectual property rights of the products we developed are jointly owned by our artists and us.

Established IP Providers

We have attracted and established solid licensing relationships with many renowned global IP providers, such as Disney and Universal Studios. We select IPs suitable for pop toys and enter into non-exclusive license agreements with the IP providers. As of the Latest Practicable Date, we entered into 11 agreements with established IP providers.

Our license agreements, primarily non-exclusive, permit us to use their IPs in connection with the pop toy products we design, develop and sell, while the intellectual property rights of such pop toy products are jointly owned by us the IP providers. As a result, upon termination of the license, we no longer have the right to sell these products without their approval. Typically we are not allowed to sub-license the IPs. Our license agreements with established IP providers typically have terms of between one and two years and are not automatically renewable. Under the license agreements, we shall make royalty payments to the IP providers based on our sales of the licensed pop toy products and, in some cases, we are required to bear some other charges. Such established IP providers also typically require a minimum guarantee of royalty and the amount of which is negotiated on a case-by-case basis.

In-house Design Team

We maintain an in-house creative design team consisting of 91 designers with rich experience in art and design-related industry. Our in-house designers work closely with our artists and established IP providers to refine character designs from

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both commercial and artistic perspectives through working on the color, three-dimensional design and moulds for the final commercial production and release to the market. See “— IP Operations — Product Design and Development — Design and Development.”

In addition, our in-house design team also works on proprietary IP creation and generated nine proprietary IPs as of the Latest Practicable Date.

FANS AND POP TOY CULTURE PROMOTION

Our Fans and Community

As a pioneer and key promoter of pop toy culture in China, we are dedicated to promoting pop toy culture and have attracted a fast-growing and passionate fan base. Our fan base primarily consists of people aged between 15 and 35 with high spending power and willing to share and display. They are attracted by the artistic styles and fun features of our products, which result in high customer loyalty and repeat purchases. They also share the fun and art they enjoy from our products with their friends and families, which further expands our fan base.

We have a multi-channel membership program in place to build our fan community, enhance their stickiness, and incentivize repeat purchases. Our fans can register as a member for free through online channels, which is accessible on multiple platforms including Weixin and Alipay, and offline channels, such as retail shops.

We have four tiers of membership and offer different tiers of membership benefits. The tier of membership is determined by “Pop Points”, which are calculated based on a member’s purchase amount, purchase frequency, and other activities in the preceding six months. Members enjoy a range of different benefits, such as points redemption, promotion activities on birthday, among others. Members accumulate “Pop Points” for their purchases, including both online and offline. Through our membership program, we are also able to communicate with our fans in a frequent, efficient and real time manner. With the application of big data and AI technologies, we are able to customize information feed and promotion activities for our members.

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Pop Mart Membership

Pop Points (泡泡值)



Calculated based on a member's purchase amount, purchase frequency, and other activities in the preceding 180 days

Membership Benefits

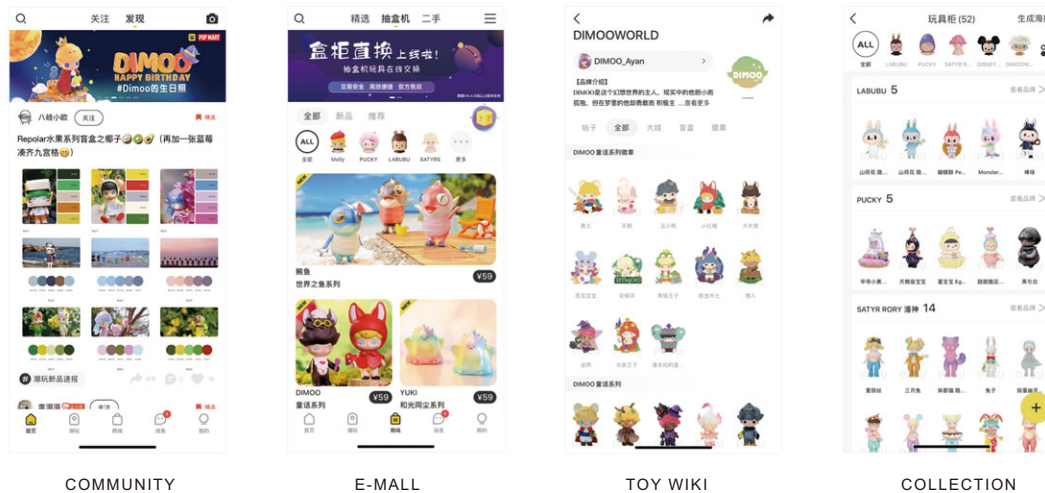


Membership benefits include points redemption, promotion activities on birthday, among others

The number of our registered members experienced rapid growth during the Track Record Period from 0.3 million as of December 31, 2017 to 0.7 million as of December 31, 2018 and further increased to over 2.2 million as of December 31, 2019. As of the Latest Practicable Date, we had 3.2 million registered members. In 2019, the overall repeat purchase rate for our registered members was 58%.

In addition to our membership program, we launched Paqu, an online community for fans to access pop toy culture information and updates, trade pop toys and engage in social interaction with other fans alike. As of the Latest Practicable Date, Paqu covered approximately 600 pop toy brands.

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Moreover, fans can also gain access to our product releases and events and various pop toy information through our Weixin public account. As of December 31, 2019, our Weixin public account had 2.0 million followers.

Conventions

In the absence of large scale pop toy events in China, we launched our first pop toy convention, BTS, in September 2017. Since then, we host two pop toy conventions each year, namely BTS and STS. We invite hundreds of artists to bring their designs and meet with pop toy fans, which provides us with the opportunities to scout and discover arising artists. According to the Frost & Sullivan Report, our BTS and STS have become the largest pop toy conventions in China in terms of visits. Our 2019 BTS attracted more than 270 artists from 14 countries and regions, more than 200 pop toy brands, and over 100,000 visits, according to the Frost & Sullivan Report.

We organize various activities at our pop toy conventions, such as autograph sessions, live paintings, interviews and games. Fans can meet and interact with their favorite artists at our conventions. Moreover, fans can purchase newly launched pop toy products from both us and third party pop toy brand owners at our conventions.

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We are dedicated to promoting pop toy culture. Other than our pop toy community and conventions, we have organized a total of 44 exhibitions and artist autograph sessions across China as of December 31, 2019. We generally cooperate with large shopping centers to host such exhibitions and activities, where large numbers of consumers can be attracted and enjoy the fun and art of pop toy culture. Moreover, we also organize design competitions and collaborate with top art colleges in China to give lectures and courses to engage more fans into pop toy culture and to cultivate emerging artists.

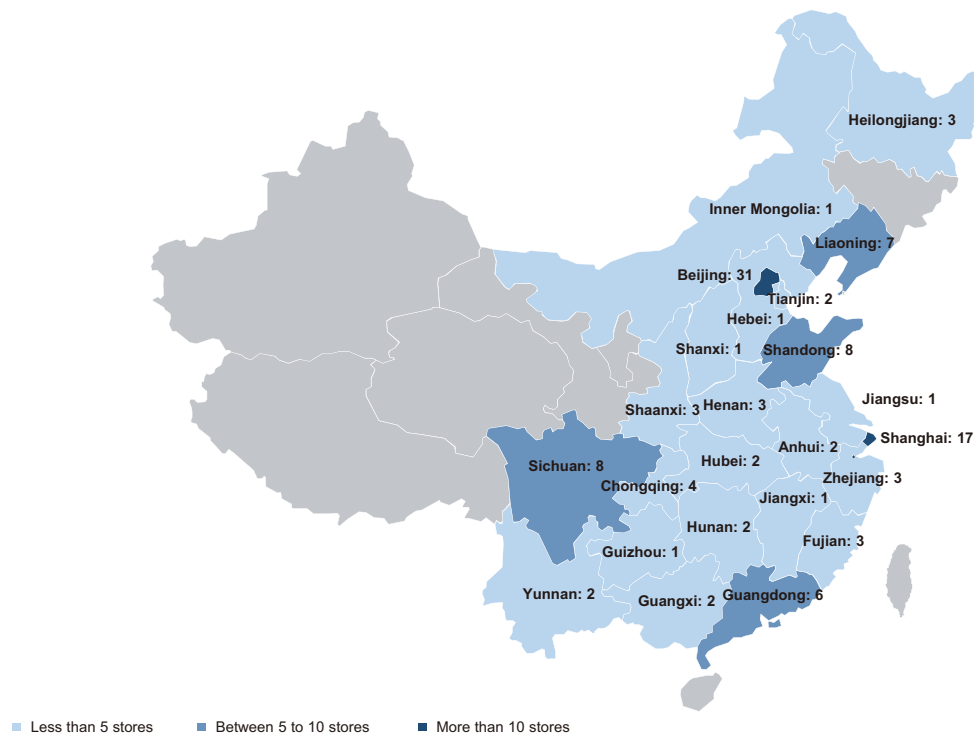


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SALES AND DISTRIBUTION CHANNELS

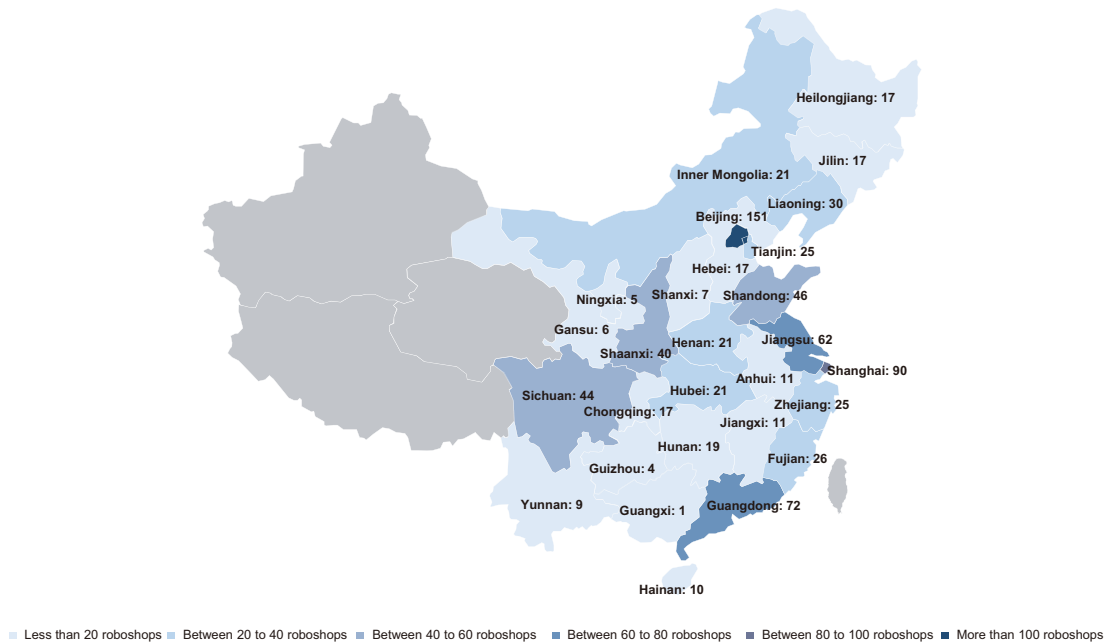
We sell our products through a comprehensive and extensive sales and distribution network. As of December 31, 2019, our sales and distribution network consisted of (i) 114 retail stores; (ii) 825 roboshops; (iii) online channels, including Tmall flagship store, Pop Draw, Paqu and other mainstream e-commerce platforms in China; (iv) our BTS and STS conventions; and (v) wholesale channels, including distributors and bulk purchase corporate customers. We engaged distributors in China and 21 overseas countries and regions such as Korea, Japan, Singapore and the United States. In addition, to a lesser extent, some corporate customers also directly order our products in bulk as gifts for employees or souvenirs for activities.

The following map sets forth the network of our retail stores as of December 31, 2019:



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The following map sets forth the network of our roboshops as of December 31, 2019:



We have strategically shifted resources towards self-developed pop toy products and have achieved robust growth in revenue during the Track Record Period. In 2017, 2018 and 2019, revenue generated from our self-developed pop toy products amounted to RMB45.9 million, RMB340.1 million and RMB1,384.2 million, respectively, representing a CAGR of 421.1%.

In addition to self-developed pop toy products, we also sell third-party products, such as action figures, puzzles, and plush toys, from selected third-party suppliers. In 2017, 2018 and 2019, our revenue generated from third-party products amounted to RMB110.3 million, RMB162.3 million and RMB280.0 million, respectively, accounting for 69.8%, 31.5% and 16.6% of our total revenue in the same years, respectively.

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

	Years ended December 31,					
	2017		2018		2019	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except for percentages)</i>					
Retail stores ⁽¹⁾	101,005	63.9	248,257	48.3	739,690	43.9
Online channels	14,854	9.4	102,886	20.0	539,201	32.0
Roboshops	5,568	3.5	86,431	16.8	248,554	14.8
Wholesale	29,884	18.9	51,329	9.9	110,467	6.6
– Distributors	27,759	17.6	44,972	8.7	93,601	5.6
– Bulk purchase	2,125	1.3	6,357	1.2	16,866	1.0
Conventions	6,763	4.3	25,608	5.0	45,522	2.7
Total revenue	<u>158,074</u>	<u>100.0</u>	<u>514,511</u>	<u>100.0</u>	<u>1,683,434</u>	<u>100.0</u>

(1) Including sales from short-term pop-up stores

Retail Stores

Our retail stores are our primary sales channel which provides the widest selection of products to meet the needs of different fans. As of December 31, 2019, we had 114 retail stores in 33 cities in China, primarily located at major commercial districts in first-tier and second-tier cities. Our retail stores generally have a GFA ranging from 100 to 150 sq.m.

Retail stores are an important channel for us to establish presence and build connections with our fans. For example, we leverage our retail stores to gather large numbers of fans, experiment with new products, upgrade shopping experiences and enhance brand awareness.

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In 2017, 2018, and 2019, we opened 17, 36 and 53 new retail stores, respectively, which reflects our continuous expansion efforts. We closed three, six and four stores during the same period, respectively, primarily due to our efforts to improve the layout and performance of retail shops. The following table sets forth the total number of our retail stores and their movement during the Track Record Period:

	Years ended December 31,		
	2017	2018	2019
Number of retail stores at the beginning of the period	16	32	63
Number of new retail stores opened during the period	17	36	53
Number of retail stores closed during the period	2	4	1
Number of retail stores at the end of the period	<u>32</u>	<u>63</u>	<u>114</u>



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Since 2017, in addition to retail 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 three months.



Roboshops

Since April 2017, we started to launch innovative cashier-less roboshops to expand our consumer access and provide an engaging and playful shopping experience. We primarily locate our roboshops at shopping malls. In addition, we also have roboshops placed at locations with high traffic, such as major subway stations. Our roboshop machines are automatic and interactive sales dispensers. We primarily sell blind box products in our roboshops. Most of our blind box products are packed in a standard and relatively small size which is suitable for sales in our roboshops as it increases the number of stock keeping unit per machine. Each roboshop can store up to approximately 60 stock keeping units.



As compared to retail stores, roboshops incur lower upfront costs and ongoing operating expenses in terms of rental fees, personnel expenses and maintenance fees. As a result, we are able to efficiently and quickly expand our roboshop network, which can reach economically vibrant regions not covered by our retail stores. Moreover, the sales performance and market feedback generated by our roboshops

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provides valuable data insight for our retail store expansion strategies. We may open retail stores to replace roboshops with high sales volume. The eye-catching designs of our roboshops and pop toy products help us to attract new fans. As of December 31, 2019, we had 825 roboshops across China.

Most of our roboshops are operated by us. To a lesser extent, we engage selected roboshop partners who are responsible for the stocking, location rental and maintenance works for 81 of our roboshops as of December 31, 2019. For products sold at roboshops operated by our roboshop partners, the control of goods are transferred from us to the fans directly and our roboshop partners do not obtain the control of goods. For details, see "Financial Information — Critical Accounting Policies and Estimates — Revenue Recognition." We typically pay our roboshop partners 35% of the gross sale proceeds of the relevant roboshops on a monthly basis. Going forward we plan not to engage new roboshop partners.

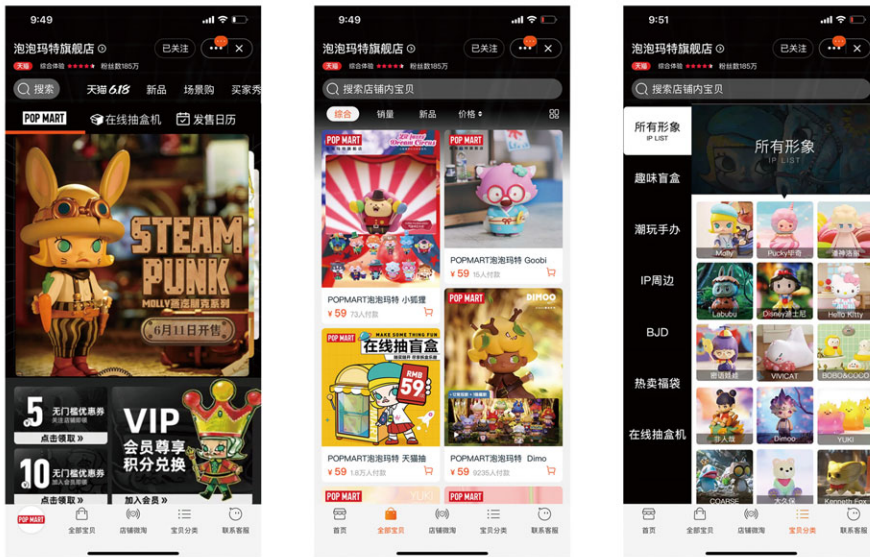
In 2017, 2018 and 2019, we opened 43, 217 and 565 new roboshops, respectively. As of December 31, 2017, 2018 and 2019, we had 43, 260 and 825 roboshops, respectively.

For the years ended December 31, 2017, 2018 and 2019, our revenue from roboshops was RMB5.6 million, RMB86.4 million and RMB248.6 million, respectively, representing 3.5%, 16.8% and 14.8% of our total revenue for the respective periods.

Online Channels

Our fast-growing online channels, including Tmall flagship store, Pop Draw, Paqu and other mainstream e-commerce platforms in China, provide convenient and fun shopping experiences. We first started operating a flagship store on Tmall in June 2016, which has become one of our key channels to attract new fans. In 2019, revenue generated from our Tmall flagship store, one of our key channels to attract new fans, amounted to RMB251.5 million and ranked first among all flagship stores for model toys on Tmall, according to the Frost & Sullivan Report. Our Tmall flagship store's gross sale proceeds on the "2019 Singles Day Shopping Festival" ranked first among all toy flagship stores on Tmall.

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TMALL FLAGSHIP STORE

We launched Pop Draw on Weixin in September 2018. The mini program fits the features of blind box and is embedded with interactive features that create a playful and fun shopping experience, and thus encourages the sales of blind boxes on smart phones. Our Pop Draw mini program has experienced robust growth since its launch in September 2018. Revenue generated from Pop Draw increased from RMB23.0 million in 2018 to RMB271.2 million in 2019.

WEIXIN MINI PROGRAM

STEP 1:

CHOOSE YOUR FAVORITE POP MART SERIES, E.G. DIMOO



STEP 2:

WAIT FOR YOUR TURN TO SELECT A BLINDBOX



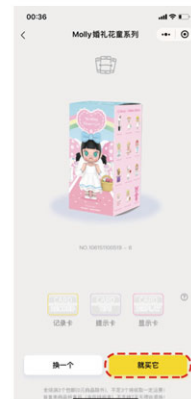
STEP 3:

AFTER CHOOSING A BLIND-BOX, USER CAN DECIDE EITHER TO BUY IT OR SWAP IT FOR ANOTHER ONE



STEP 4:

AFTER COMPLETING THE PURCHASE WITH WEIXIN PAY, USER CAN OPEN THE BOX ONLINE. THE BLIND BOX WILL BE DELIVERED IN 2-7 DAYS



Paqu is our self-operated online community which features pop toy culture information and updates, e-commerce and social interaction. For more details, see “— Fans and Pop Toy Culture Promotion — Pop Toy Culture Community.”

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For the years ended December 31, 2017, 2018 and 2019, our revenue from online channels was RMB14.9 million, RMB102.9 million and RMB539.2 million, respectively, representing 9.4%, 20.0% and 32.0% of our total revenue for the respective periods.

Conventions

We host the largest pop toy conventions in China in terms of visits, namely BTS and STS, which have attracted hundreds of artists and pop toy brand owners across the globe. For more details, see “— Fans and Pop Toy Culture Promotion — Conventions.”

At our pop toy conventions, fans can purchase pop toy products from both us and third party pop toy brand owners. We often launch new editions and limited editions of our products at the conventions. For participating third-party pop toy brand owners, we may (i) pre-purchase their products at a fixed price; (ii) charge commissions based on the gross sale proceeds; or (iii) charge fixed exhibit spot fees. For the years ended December 31, 2017, 2018 and 2019, our revenue from conventions was RMB6.8 million, RMB25.6 million and RMB45.5 million, respectively, representing 4.3%, 5.0% and 2.7% of our total revenue for the respective periods.

Wholesale

Distributors

We also sell our products through our distributors, who in turn resell our products through the retail shops they operate or to retailers. As of December 31, 2019, we had 22 distributors in China and 19 overseas distributors, and had established an extensive distribution network covering China's 16 provincial territories and 21 overseas countries and regions.

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. We believe that 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.

For the years ended December 31, 2017, 2018 and 2019, our revenue from sales to distributors was RMB27.7 million, RMB44.9 million and RMB93.6 million, respectively, representing 17.6%, 8.7% and 5.6% of our total revenue for the respective periods.

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Management of Our Distributors

Our distributors are typically regional distributors primarily involved in the sale and distribution of toys, stationery, culture & creative and other products with a well-established local retail or distribution network. The increased number of our distributors during the Track Record Period was in line with our business growth, especially our overseas expansion. The following table sets forth the total numbers of our distributors and their movement during the Track Record Period:

	Years ended December 31,		
	2017	2018	2019
Number of distributors at the beginning of the period	2	6	17
Number of new distributors during the period	5	11	26
Number of distributors terminated during the period	1	0	2
Number of distributors at the end of the period	6	17	41

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 provide a progressive discount for distributors based on the volume of products ordered. Revenue is recognized when control of the products has transferred, being when products are delivered to and accepted by our distributors. Once the products are delivered to the distributors, they cannot be returned except for defective products, which is in line with industry practice. Therefore, there is no obsolete stock at our end.

On the other hand, although we do not require our distributors to achieve a minimum purchase or sales target, we closely monitor the performance of our distributors. Generally, we require our distributors to report to us their sales statistics every month or every quarter to cross-check with our internal data base. We will assess inventory levels of our distributors based on their purchase orders and sales reports. When we notice that our distributors have excessive inventories or their sales volumes 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, therefore, the statistics of unsold inventories of our distributors as of the period end during the Track Record Period and the Latest Practicable Date is neither material or applicable to us.

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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. We can terminate the distribution agreements if they breach material provisions stipulated therein.

To the best knowledge of our Directors, except for Nanjin Golden Eagle Pop Mart and our joint ventures in Korea and Singapore, all our distributors were independent third parties, and none of our distributors was wholly owned or majority controlled by our current or ex-employees or operated under our brand during the Track Record Period. None of our distributors were our suppliers during the Track Record Period. During the Track Record Period, we did not provide financing to any of our distributors except for the credit terms we granted to them.

Nanjing Golden Eagle Pop Mart

We established Nanjing Golden Eagle Pop Mart as a joint venture with a leading retail chain operator in China in 2014. For details, see "History Reorganization, and Corporate Structure — Establishment and Development of Our Group — 5. Establishment of Nanjing Golden Eagle Pop Mart." On January 1, 2017, we entered into a distribution agreement with Nanjing Golden Eagle Pop Mart, key terms of which included:

- *Duration:* The term of this agreement is for five years, and is renewable upon mutual consent.
- *Stores and Sales Policies:* Nanjing Golden Eagle Pop Mart has the right to use our brand names and trademarks to operate stores as determined by us. Any plan to open any store shall be pre-approved by us in writing. Nanjing Golden Eagle Pop Mart has the right to resell our products only at stores designated by us.
- *Trademarks and Brand Names:* Nanjing Golden Eagle Pop Mart has the right to use our brand names and trademarks in relation to the sale and distribution of our products for free.
- *Retail Price Management:* Nanjing Golden Eagle Pop Mart is required to ensure our products are sold at our suggested unit sales prices.
- *No Early Exposure:* Nanjing Golden Eagle Pop Mart is 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 Nanjing Golden Eagle Pop Mart at discount levels to our suggested unit sales prices.
- *Sales Target and Minimum Purchase Amount:* No specified sales target or minimum purchase amount requirement.

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- *Credit Terms:* We grant Nanjing Golden Eagle Pop Mart a credit term of 30 days.
- *Inspection and Exchange of Products:* Nanjing Golden Eagle Pop Mart is required to inspect products immediately following receipt and notify us of any quality defects. Nanjing Golden Eagle Pop Mart may exchange the defective products following the procedures provided in the distribution agreement.
- *Confidentiality:* We and Nanjing Golden Eagle Pop Mart mutually undertake not to disclose or inappropriately use the other party's trade secrets.
- *Termination Right:* We reserve the right to terminate this distributorship agreement in the event Nanjing Golden Eagle Pop Mart breaches any material terms of the distribution agreement.

As of December 31, 2017, 2018 and 2019, there were 19, 19 and 16 stores operated by Nanjing Golden Eagle Pop Mart, respectively. We provide trainings to the employees at these stores. In 2017, 2018 and 2019, our revenue generated from Nanjing Golden Eagle Pop Mart amounted to RMB26.2 million, RMB35.5 million and RMB54.8 million, respectively.

Key Terms of Other Distribution Agreements

We generally enter into standardized distribution agreements with our other distributors, which helps us efficiently manage our distributors and ensure an orderly market for our products. During the Track Record Period, the key terms of our standardized distribution agreements included:

- *Duration:* The term of agreement is usually one year to two years, and is renewable automatically or upon mutual agreement.
- *Sales Policies:* 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.
- *Access to Information:* Distributors are generally required to provide us with sales information on our products on a monthly basis.
- *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.

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- *Sales Target and Minimum Purchase Amount:* No specific sales target or minimum purchase amount requirement.
- *Credit Terms:* We generally provide credit terms to our distributors ranging from 30 to 90 days.
- *Inspection and Exchange of Products:* Distributors are required to inspect products immediately following receipt and notify us of any quality defects. Distributors may exchange the defective products following the procedures provided in the distribution agreement.
- *Confidentiality:* We and distributors mutually undertake not to disclose or inappropriately use the other party's trade secrets.
- *Termination Right:* We generally reserve the right to terminate a distributorship agreement in the event the distributor breaches any material terms of the distribution agreement.

OUR CUSTOMERS

Our customers primarily consist of our fans and distributors, and to a lesser extent, our bulk purchase corporate customers. We generally provide credit terms to our wholesale customers ranging from 30 to 90 days. Certain wholesale customers with good history and long-term relationship are extended preferential credit terms exceeding 90 days. We have a diversified customer base. In 2017, 2018 and 2019, total revenue generated from our five largest customers, which included our distributors and bulk purchase corporate customers, accounted for approximately 17.8%, 8.2% and 4.3% of our revenue, respectively, and total revenue generated from our largest customer, Nanjing Golden Eagle Pop Mart, accounted for approximately 16.6 %, 6.9% and 3.3% of our revenue, respectively.

As of December 31, 2019, the business relationships with our five largest customers ranged from one to three years. So far as our Directors are aware, except for Nanjin Golden Eagle Pop Mart, none of our Directors or executive officers of our Company or its subsidiaries, their respective associates or any Shareholders of our Company holding more than 5% of the issued share capital of our Company immediately following the completion of the [REDACTED], had any interests in any of our five largest customers during the Track Record Period.

SALES AND MARKETING

We have a dedicated marketing team which is responsible for formulating and coordinating marketing activities and promotion campaigns. As of December 31, 2019, our marketing team consisted of 20 members who worked closely with other teams and/or our artists and IP providers to execute marketing strategies. In 2017, 2018 and 2019, our advertising and marketing expenses amounted to RMB2.6 million, RMB10.7 million and RMB46.8 million, respectively.

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Our Pop Mart brand has become one of the most widely recognized pop toy brands in China, according to the Frost & Sullivan Report, and our IPs also receive great popularity. Our fans are attracted by the artistic styles and collectible features of our products, which result in high customer loyalty and repeat purchases. Moreover, limited editions launched by us have greater collectible value and thus are more popular among fans. In addition to word-of-mouth marketing, we have adopted a multi-channel strategy that enables us to market our products to further enhance our brand recognition and reach a wider fan base. We organize various offline events including our conventions, exhibits and autograph sessions. We launch themed pop-up stores from time to time to promote sales and enhance brand awareness. We also attend major overseas pop toy conventions to establish presence. We have also adopted a series of online marketing strategies through popular social media networks, search engines and mobile apps.

CUSTOMER SERVICE AND PRODUCT RETURN

We operate a customer service Weixin mini program and a customer service hotline which allow our consumers to make enquiries about our products and policies, and to express their feedback on the quality of our service. Other than defective products, we generally do not accept product returns. Once our products are sold to consumers, we accept product exchange within 15 days of purchase for defective products. We have not experienced any customer complaints, product exchanges or product liability claims that materially and adversely affected our business during the Track Record Period and up to the Latest Practicable Date.

OUR SUPPLIERS

Currently, our suppliers primarily include selected third-party manufacturers in China, which are selected based on factors such as quality, capacity, price, reputation and compliance with applicable laws and regulations. The use of third-party manufacturers enables us to avoid incurring fixed manufacturing costs, while maximizing flexibility, capacity and capability. We believe that alternative sources of supply are available to us although we cannot be assured that we can obtain adequate supplies of manufactured products on a timely basis or at all. To a lesser extent, our suppliers also include third-party brand owners from whom we procure their products and sell through our network.

We usually enter into supply agreements of at least one year with our suppliers, subject to our standard terms and conditions. In most cases, when orders placed with a particular supplier exceed the agreed amount, we will be entitled to a percentage rebate or discount on the purchase price as agreed with the supplier. Our suppliers may grant us credit terms of up to 180 days.

In 2017, 2018 and 2019, purchases from our five largest suppliers, which were manufacturers, accounted for approximately 43.8%, 41.3% and 40.8% of our total purchases, respectively, and purchases from our largest supplier accounted for approximately 19.7%, 18.8% and 15.0% of our total purchases, respectively.

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So far as our Directors are aware, none of our Directors or executive officers of our Company or its subsidiaries, their respective associates or any Shareholders of our Company holding more than 5% of the issued share capital of our Company immediately following the completion of the [REDACTED], had any interests in any of our five largest suppliers during the Track Record Period.

LOGISTICS AND INVENTORY MANAGEMENT

Warehouse

We use our self-operated central warehouses as well as a number of outsourced warehouses to meet our storage needs and ensure the delivery of our products to retail points efficiently and economically. As of the Latest Practicable Date, we operated two central warehouses in Beijing and Nanjing focusing on offline sales and distributions with a total GFA of approximately 4,310 sq.m.. Moreover, we had one outsourced warehouse in Jiaxing focusing on online sales and distribution and one outsourced warehouse in Dongguan focusing on inventories for Southern China and finished goods from factories. We also have certain other outsourced warehouses focusing on local retail points.

All of our self-operated warehouses are equipped with ERP system which enables the warehouses to achieve automatic distribution and to combine the duplicated orders. With surveillance cameras completely covering our warehouses, we closely monitor all item movements and the storage space in our warehouses.

Transportation and Logistics

We engage third-party logistics service providers to collect our products from warehouses and deliver them to our retail points. As of December 31, 2019, we had two warehousing and delivery service providers and 8 logistics service providers. Our transportation arrangements with third-party logistics service providers enable us to maintain a low level of capital investment in developing and maintaining an in-house logistics system.

We select logistics service providers based on their reputation, scale of operation, track record and price. We usually enter into agreements with our logistics service providers on an annual basis. We use a standardized logistics agreement for our logistics service providers. Our logistics service providers bear the risks associated with the delivery of our products, are liable for product contamination occurring during the transportation process and are required to purchase necessary insurance. We assess our logistics service providers based on delivery performance, transportation capability and overall service quality. 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 loss due to late delivery or mishandling of products by our logistics service providers. For any inner-city ad hoc product-transport needs, we also use other temporary logistics service providers.

We incurred approximately RMB1.0 million, RMB5.6 million and RMB39.3 million, respectively, in 2017, 2018 and 2019 in utilizing transportation and logistics services provided by our logistics service providers, respectively.

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Inventory Management

During the Track Record Period, all of our inventories were finished products. We need to maintain a sufficient amount of inventories in our warehouses to satisfy the demands of our sales and distribution channels, and to support our expansion plan. As of December 31, 2017, 2018 and 2019, the balance of inventories amounted to approximately RMB15.5 million, RMB29.1 million and RMB96.3 million, respectively, representing approximately 23.6%, 11.4% and 13.4%, respectively, of our total current assets. Our average number of inventory turnover days for 2017, 2018 and 2019 were 49 days, 45 days and 46 days, respectively.

We monitor our inventory levels on a regular basis. Based on our sales experience, we prepare a sales forecast for our internal reference on a monthly basis. Our procurement team will place orders based on the sales forecast and the inventory level in our storage.

We have established policies with regard to inventory management, such as a labelling system to categorize different batches of products and items for the products distributed by us. We have also put in place a security system to protect and prevent our inventory from theft, embezzlement and damages. Insurance policies have taken effect to cover accidental loss or damage of our inventory.

Our shop managers at each retail shop and representatives for roboshops are responsible for stock taking and monitoring of stock movement every month and uploading such information on our ERP system. They are required to report back to our head office with the level of inventory and sales progress on a regular basis.

QUALITY CONTROL

We believe that our commitment to product quality and safety is one of the principal factors contributing to our success. We place strong emphasis on product quality and safety by implementing a comprehensive quality control system in order to maintain our competitive edge. As of the Latest Practicable Date, we had 14 members in our quality control team.

Although we do not conduct the day-to-day manufacturing of our products, we are responsible for compiling the standard operation procedure, designing the product prototype and moulds for our products, and we seek to ensure quality control by carefully selecting the suppliers, actively reviewing the production process and testing the products produced by our manufacturers. We have adopted strict quality control measures over our production process including post-production inspection and final quality control to ensure product quality. We require our manufacturers to strictly follow any applicable laws, regulations and industry standards. We extremely value the health and safety of our fans and we are cautious in avoiding the use of raw materials containing volatile organic compounds or formaldehyde.

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During the Track Record Period and up to the Latest Practicable Date, we did not experience any material incidences in the course of our sales operation nor were there any material claims for personal or property damages or compensation arising from our sales of products. Further, our supply contracts with our suppliers usually provide that product liability in respect of any product supplied to us will be borne by the suppliers. We have not suffered from any product liability claims which were, individually or on an aggregate basis, material during the Track Record Period. See "Risk Factors — Risks Relating to Our Business and Industry — Failure in product quality control may adversely affect our business."

Selection of Suppliers

We maintained a list of suppliers and typically work with trustworthy suppliers possessing a reliable corporate background, trading history and reputation.

We adopt standardized criteria for evaluating the qualifications of potential suppliers. To be admitted as one of our suppliers, the potential supplier will be required to provide documents proving its corporate background and relevant certifications or qualifications possessed by the potential supplier for meeting certain international or local standards.

Production Process

To ensure that our suppliers are able to maintain a satisfactory level of product quality from time to time, we regularly assigned staff to the production premises of our suppliers to monitor the production process. We may also provide advice to our suppliers throughout the production process on matters including paint-mixing, design and composition of product moulds, as well as management of production schedule. It is our policy that those suppliers that are unable to meet the guiding standards for periodical review will be encouraged to take necessary remedial measures to cure the impediments for our continuous procurement or they will be removed from our list of suppliers until appropriate remedial measures are taken to our satisfaction.

Final Products

Our suppliers will cooperate with our quality control team to conduct quality checks on samples of the final products based on our in-house testing method which covers various aspects of the products, including (i) assembling, (ii) spraying and coloring, (iii) sharpness of point, (iv) overall functioning, and (v) positioning and conditions of the parts and components. We would also engage third-party inspection organizations to deliver inspection reports or require our suppliers to submit inspection reports from third-party inspection organizations for our reference. Our quality control team also conducts periodic review on the product quality to assess the consistency on quality between sample products and products ordered and delivered.

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INFORMATION TECHNOLOGY

Our information technology systems are critical to our effective management and business development. Our information technology systems for daily sales operation include, among others, the POS system, ERP system and an accounting and finance system, which centralize our material operational data, conduct big data analysis, and allow our senior management to closely monitor the sales performance and inventory level.

We maintain security of our information technology systems which covers cyber security, application security, data security and terminal security through various technologies including encryption, anti-virus software and firewall. For example, access to customer data is only limited to selected authorized staff who are provided with an encrypted password and key data is only stored and transmitted within our intranet to avoid exposure to public internet. Furthermore, we conduct regular information security training for our employees to enhance their awareness on information security and improve the implementation of our information technology risk management.

We currently outsource the development and maintenance of certain IT systems to outside vendors. We mitigate the risks of leakage of confidential information and commercial secrets through various measures, such as source code control, access control, and regular assessment of the service-level agreements, between us and the vendors.

COMPETITION

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 the 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 penetration 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 pop toy retailing market in China is fragmented and competitive. In 2019, the top five market players contributed 23% market shares of China's pop toy retailing market by retail value, according to the Frost & Sullivan Report. Our competitors comprise both international brands and domestic brands. We compete on various factors, including brand recognition, fan base, product popularity and quality, price, effectiveness of marketing, and sales and distribution network in China, among others. According to the Frost & Sullivan Report, in 2019, we ranked the first in the pop toy retailing market in China with a market share of 8.5% measured by retail value.

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See “Risk Factors — Risk Relating to Our Business and Industry — Our industry is highly competitive. If we are unable to compete effectively with existing or new competitors, our sales, market share and profitability could decline.” and “Industry Overview” for more information about the market where we operate and the competition we face.

INTELLECTUAL PROPERTY

Intellectual property is fundamental to our success and competitiveness. Our license agreements permit us to use the IPs of our artists and IP providers 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 our artists and IP providers. See “— Our IP Platform — IP Creation.”

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 seven patents, registered or applied for a total of 373 trademarks, registered 137 copyrights, and registered eight domain names, including, among others, www.popmart.com, www.paguapp.com and www.toyshowchina.com, in China. As of the Latest Practicable Date, we also had registered or applied for a total of 14 trademarks overseas. For details, see “Appendix IV — Statutory and General Information — B. Further Information about Our Business — 2. Intellectual property rights of our Group.”

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.

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EMPLOYEES

We had 406, 731 and 1,252 full-time employees as of December 31, 2017 and 2018 and 2019, respectively. Substantially all of our employees are based in the PRC. The following table sets forth a breakdown of our employees by division as of December 31, 2019:

	<u>Number of Employees</u>	<u>Percentage</u>
Store operation	837	66.9
Creative design and industrial development	91	7.3
Management, finance, administration and others	<u>324</u>	<u>25.9</u>
Total	<u>1,252</u>	<u>100.0%</u>

We primarily recruit our employees through on-campus job fairs, recruitment agencies and online channels including our corporate websites and social networking platforms. We have adopted robust internal training policies, pursuant to which management, technology and other training are regularly provided to our employees by internally sourced speakers or externally hired consultants.

As required by PRC laws and regulations, we participate in various government statutory employee benefit plans, including social insurance funds, namely a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan, a maternity insurance plan, and a housing provident fund. We are required under PRC law to contribute to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees up to a maximum amount specified by the local government from time to time.

We enter into standard contracts and agreements regarding confidentiality, intellectual property, employment, commercial ethics and non-competition with all of our executive officers and the vast majority of our employees. These contracts typically include a non-competition provision and a confidentiality provision effective during and after their employment with us.

None of our employees are currently represented by labor unions. We believe that we maintain a good working relationship with our employees, and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period.

INSURANCE

We consider our insurance coverage to be adequate as we have in place all the mandatory insurance policies required by PRC laws and regulations and in accordance with the commercial practices in our industry. Our employee-related insurance consists of pension insurance, maternity insurance, unemployment insurance, work-related injury insurance, medical insurance, as required by PRC laws

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and regulations. We also maintain all risks insurance and public liability insurance for our retail stores, roboshops and warehouses in order to protect us against losses and damages as a result of theft, robbery and fire, as well as accidental injury and property damage claims.

In line with general market practice, we do not maintain any business interruption insurance or product liability insurance, which are not mandatory under PRC laws. We do not maintain key-man life insurance or insurance policies covering damages to our network infrastructures or information technology systems. See "Risk Factors — Risks Relating to Our Business and Industry — We have limited insurance to cover our potential losses and claims." During the Track Record Period, we did not make any material insurance claim in relation to our business.

PROPERTIES

As of the Latest Practicable Date, we had a total of 985 leased properties in Beijing, Shanghai, Tianjin, Nanjing and various other cities in China. Our leased properties in China serve as our offices, retail shops, roboshops and warehouses. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are principally used as premises for our businesses and offices. We believe that there is sufficient supply of properties in China and we do not rely on the existing leases for our business operations.

As of the Latest Practicable Date, our leased properties have a total GFA of approximately 38,000 sq.m. The relevant lease agreements have lease expiration dates ranging from May 2020 to March 2025.

With respect to the leased property of our headquarters in Beijing with a GFA of 4,133.14 sq.m., we did not obtain the construction permit and complete the filing for fire protection design and completion acceptance for the decoration of the leased property as of the Latest Practicable Date, primarily due to the employees who were in charge of these matters being unfamiliar with the relevant regulatory requirements. According to the applicable laws and regulations, for the decoration projects with an investment of more than RMB300,000 and a construction size of larger than 300 sq.m., the construction entity shall, before the commencement of construction, apply to the competent housing and urban-rural development department for a construction permit. Within seven days upon obtaining the construction permits and passing the project completion acceptance, the construction entity shall conduct fire protection filing for fire protection design and completion acceptance. As advised by our PRC Legal Advisor, we may be subject to (i) an order of rectification and a fine of 1% to 2% of the total cost specified in the construction project contract, which is up to approximately RMB10,000 in our case; and (ii) a fine ranging from RMB30,000 to RMB300,000 or suspension of the usage of the leased property. As of the Latest Practicable Date, we had not received any administrative penalties in this regard. Our Directors confirmed that the facts above would not materially and adversely affect our business operations because if we have to relocate from such leased property, we are able to locate qualified alternative premises within a short period of time under comparable terms without incurring substantial additional costs.

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As of the Latest Practicable Date, lessors of 633 of our leased properties in China, with a total GFA of approximately 16,100 sq.m., had not provided us with valid title certificates for commercial purpose or relevant authorization documents evidencing their rights to lease the properties to us. As a result, these leases may not be valid, and there are risks that we may not be able to continue to use such properties. Our Directors confirmed that the above-mentioned title defects would not materially and adversely affect our business operations because (i) if we have to terminate the leases or relocate from such leased properties with title defects, we are able to locate qualified alternative premises within a short period of time under comparable terms without incurring substantial additional costs; and (ii) as confirmed by our PRC Legal Advisor, in the event any of the relevant lease agreements be deemed invalid or otherwise unenforceable due to the above-mentioned title defects, we are entitled to claim against the relevant lessors for all the losses and damages so caused.

As of the Latest Practicable Date, two of our leased properties with a total GFA of 17 sq.m. were located on allocated lands (劃撥地), which have served as the registered office of a subsidiary and a roboshop. As advised by our PRC legal adviser, the lease of such properties on allocated lands must be approved by and registered with the appropriate land and real estate administration bureau in the PRC. However, as of the Latest Practicable Date, the lessors had not obtained the necessary approval nor completed the registration. As a result, such leases may be deemed invalid and we may be forced to relocate from such properties. Our Directors confirmed that the failure to obtain the approval and complete the registration will not result in material adverse impact on our business and results of operations, primarily because if we have to relocate from such leased properties, we are able to locate qualified alternative premises within a short period of time under comparable terms without incurring substantial additional costs.

Pursuant to the applicable PRC laws and regulations, property lease contracts must be registered with the competent PRC government authorities. As of the Latest Practicable Date, we had not obtained any lease registration for the 971 properties, with a total GFA of approximately 30,000 sq.m., we leased in China, primarily due to the difficulty of procuring our lessors' cooperation required to register such leases. We will take all practicable and reasonable steps to ensure that the unregistered leases are registered. Our PRC legal advisor has advised us that the lack of registration of the lease contracts will not affect the validity of the lease agreements under PRC laws, and has also advised us that a maximum penalty of RMB10,000 may be imposed for non-registration of each lease. The estimated total maximum penalty is RMB9,710,000. As of the Latest Practicable Date, we have not received any administrative penalties in this regard.

We consider that the above-mentioned title defects and the failure to obtain required approvals or complete necessary registrations are primarily attributable to reasons beyond our control because the lessors of these properties are responsible for procuring the necessary ownership certificates and providing documents and information necessary for the administrative filings. To minimize the potential adverse impact of the above property defects on our operations, we plan to continue to maintain regular communication with the lessors regarding their progress of remedying the defects. We have established guidance and strengthened our internal control procedures whereby valid title certificates and landlord's cooperation to register the lease agreements much be obtained before we enter into any new leases.

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As of December 31, 2019, none of the properties held or leased by us had a carrying amount of 15% or more of our consolidated total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L of the Laws of Hong Kong), 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 our interests in land or buildings.

LEGAL PROCEEDINGS AND COMPLIANCE MATTERS

Legal Proceedings

We may from time to time become a party to various legal proceedings arising in the ordinary course of business. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not involved in any litigation, arbitration or administrative proceeding against us or any of our Directors that could have a material and adverse effect on our business, financial conditions or results of operations. Furthermore, to the knowledge of our Directors, there is no pending or foreseeable litigation, arbitration or administrative proceeding against us or any of our Directors that could cause a material and adverse effect on our business, financial conditions or results of operations.

Legal Compliance

During the Track Record Period and up to the Latest Practicable Date, we did not have any non-compliance incidents which our Directors believe would, individually or in the aggregate, have a material operational or financial impact on our business as a whole.

Failure to Make Full Contributions to Social Insurance and Housing Provident Funds

During the Track Record Period, social security insurance and housing provident fund contributions for some of our employees had not been made in full in accordance with the relevant PRC laws and regulations. We failed to make full social security insurance and housing provident fund contributions for some of our employees primarily because they were unwilling to cooperate in making payments for such funds as they chose to participate in local rural social security systems offered in their place of residency. Pursuant to relevant PRC laws and regulations, the under-contribution of social insurance within a prescribed period may subject us to a daily overdue charge of 0.05% of the delayed payment amount. If such payment is not made within the stipulated period, the competent authority may further impose a fine of one to three times of the overdue amount. Pursuant to relevant PRC laws and regulations, if there is a failure to pay the full amount of housing provident fund as required, the housing provident fund management center may require payment of the outstanding amount within a prescribed period. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement.

As of the Latest Practicable Date, no administrative action or penalty had been imposed by the relevant regulatory authorities with respect to our social insurance and

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housing provident fund contributions, nor had we received any order to settle the deficit amount. Moreover, as of the Latest Practicable Date, we were not aware of any complaint filed by our employees regarding our social security insurance and housing provident fund policy.

Pursuant to the Urgent Notice on Enforcing the Requirement of the General Meeting of the State Council and Stabilizing the Levy of Social Insurance Payment (《關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) promulgated on September 21, 2018 by the Ministry of Human Resources & Social Security, administrative enforcement authorities are prohibited from organizing and conducting centralized collection of enterprises' historical social insurance arrears. As of the Latest Practicable Date, we had completed rectification measures to comply with social insurance and housing provident funds laws and regulations and undertake to make timely payments for the deficient amount and overdue charges, if and when requested by the competent government authorities. In 2017, 2018 and 2019, we made provisions of RMB0.2 million, RMB0.9 million and RMB4.4 million for the social insurance and housing provident fund contribution shortfall, respectively.

Our Directors believe that such non-compliance would not have a material adverse effect on our business and results of operations, considering that: (i) we had not been subject to any administrative penalties during the Track Record Period and up to the Latest Practicable Date; (ii) we were neither aware of any employee complaints filed against us nor involved in any labor disputes with our employees with respect to social insurance and housing provident funds during the Track Record Period and up to the Latest Practicable Date; (iii) as of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities requiring us to pay for the shortfalls or any overdue charges with respect to social insurance and housing provident funds; and (iv) as advised by our PRC Legal Advisor, considering relevant regulatory policies and telephone enquiries with the relevant authorities, the likelihood that we are subject to centralized collection of historical arrears and any material penalties due to our failure to provide full social insurance and housing provident funds contributions for our employees is low as no employee complaint has been filed against our Company, and our Directors believe that such non-compliance will not have a material adverse effect on our financial condition or results of operations as a whole and the [REDACTED]. As a result, we did not make any provisions in connection with these non-compliances during the Track Record Period and up to the Latest Practicable Date.

Internal Control Measures

We have taken the following internal control measures to rectify and prevent the recurrence of such non-compliances.

- We have designated Mr. Si De, an executive Director and the chief operating officer of our Company, to oversee and monitor our future compliance with applicable laws and regulations.
- Our legal department have organized and will regularly organize compliance training for employees to enhance their awareness of the requirements of applicable laws and regulations.

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LICENSES, REGULATORY APPROVALS AND PERMITS

We have detailed compliance procedures to identify and control the legal risks in our operations. Our Directors, as advised by our PRC legal advisor, confirm that, during the Track Record Period and up to the Latest Practicable Date, we had complied in all material aspects with all relevant PRC laws, rules and regulations that are applicable to our operations.

Our Directors and PRC legal advisor confirm that, during the Track Record Period and up to the Latest Practicable Date, we had obtained all the material licenses and permits required for our operations. The following table sets out a list of material licenses and permits currently held by us:

No.	Holder	Name of the License	Expiration Date
1.	Beijing Pop Mart	Publication Operation License	April 30, 2022
2.	Beijing Pop Mart	High New Technology Enterprises Certificate	September 10, 2021
3.	Beijing Pop Mart	Enterprise Overseas Investment Certificate	Valid on long-term
4.	Beijing Pop Mart	Customs Declaration Unit Registration Certificate	Valid on long-term
5.	Beijing Pop Mart	Food Operation License	May 20, 2024
6.	Tianjin Paopaowenhua	Food Operation License	May 16, 2024
7.	Beijing Paqu	Publication Operation License	April 30, 2022
8.	Beijing Paqu	Auction Operation License	January 23, 2028
9.	Beijing Paqu	Electronic Data Interchange License	March 31, 2025
10.	Paqu Huyu	Internet Content Provider License	August 2, 2021
11.	Paqu Huyu	Internet Culture Operation License	May 20, 2022

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We will renew these licenses and permits timely upon their expiration to ensure that our production complies with relevant applicable laws and regulations.

Our PRC legal advisor has advised us that such licenses and permits remain in full effect and had not been revoked or cancelled as of the Latest Practicable Date. Our PRC legal advisor also has advised us that, to the best knowledge of our PRC legal advisor, there is no legal impediment to renew such licenses and permits, as long as we comply with the relevant legal requirements and provided that we take all necessary steps and submit the relevant applications in accordance with the requirements and schedule prescribed by the applicable laws and regulations of the PRC.

For more information about the laws and regulations to which we are subject, see "Regulations."

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, production, as well as 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 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 and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies [REDACTED] in Hong Kong;
- enhance our reporting and records system for production facilities, including centralizing their quality control and safety management systems and conducting regular inspections of the facilities;
- establish a set of emergency procedures in the event of major quality-related issues; and

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Our business is generally subject to relevant PRC national and local environmental laws and regulations. However, our operations do not produce or discharge any industrial wastes which are hazardous to the environment. As confirmed by our PRC Legal Advisor, we are not required to obtain any approvals or certificates that are applicable to the environment laws and regulations in the PRC.

We have formulated and implemented various workplace safety policies and procedures to ensure that our employees have a safe working environment. During the Track Record Period, none of our employees were involved in any major accidents in their workplaces.

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BACKGROUND

We are currently the fastest growing player in the PRC pop toy market, according to Frost and Sullivan. Our growth could be attributed to our dedication to promoting pop toy culture and have attracted a premium and passionate fan base. We have membership program in place to build our fan community, enhance its loyalty, and incentivize repeat purchases through a variety of membership benefits. Through our membership program, we are also able to communicate with our fans in a frequent, efficient and real time manner. We are exploring new and fun ways to develop a comprehensive community with our fans and our online community, including online culture services and internet information services. In order to expand, we launched Paqu Huyu as a new flagship platform to conduct online culture services and internet information services to our fans and community (collectively, the "**Relevant Businesses**").

PRC REGULATORY REQUIREMENTS

The provision of online culture services by Paqu Huyu falls within the scope of "internet cultural products" under the Provisional Regulations for the Administration of Internet Culture (互聯網文化管理暫行規定) considered as "prohibited" under the Catalog where foreign investment is strictly forbidden.

Separately, as confirmed by our PRC Legal Advisor, the provision of internet information services by Paqu Huyu falls within the scope of provision of value-added telecommunication services (增值電信業務) (the "**VATS**") under the Telecommunication Regulations (電信條例). The VATS industry in the PRC is categorized as a "restricted" category under the Special Administrative Measures for Access of Foreign Investment (Negative List) (the "**Negative List**") and has been subject to restrictions on percentage of foreign ownership (not holding more than 50%, except for the operation of e-commerce business, domestic multi-party communication service, store-and-forward-type service and call center service).

Paqu Huyu has obtained a ICP License and a ICB License required to carry out the Relevant Businesses, and introduction of foreign shareholder in ICP license will be subject to substantive examination and discretion of the competent authority as advised by our PRC Legal Advisor.

In a consultation (the "**Beijing CB Consultation**") conducted on July 25, 2019 with an officer of the Beijing Municipal Culture Bureau (the "**Beijing CB**"), where Paqu Huyu was established, the officer confirmed that the ICB License will not be granted to any foreign invested enterprise, and that our plan to control the entire equity interests of Paqu Huyu through the Contractual Arrangements do not require any prior approval of, or registration or filing with, the Beijing CB and that such contractual arrangements do not violate any regulations of Relevant Businesses, and the Beijing CB has no authority to require the termination of such contractual arrangements. Our PRC Legal Advisor is of the view that the Beijing CB, as the department in charge of the Online Culture Services industry in Beijing, is the competent authority to provide the relevant confirmation.

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In a consultation (the “**BCA Consultation**”) with an officer of the Beijing Communication Administration (北京市通信管理局) (the “**BCA**”) conducted on March 6, 2019, the officer confirmed that any PRC entity holding an ICP License that subsequently changes into a joint venture is subject to substantive examination and discretion. The PRC entity shall first report the potential shareholding change and the introduction of the foreign investor to the BCA and the original ICP License will be withdrawn. After the PRC entity turns into a joint venture, the joint venture must reapply for the ICP License in accordance with the procedure stated in The Provisions on the Administration of Foreign-funded Telecommunications Enterprises (《外商投資電信企業管理規定》), which is a very lengthy procedure with uncertain results. The BCA may also need to report the application to the Ministry of Industry and Information Technology (工業和信息化部) (the “**MIIT**”), which may further prolong the application process. In the BCA Consultation, the officer was also of the view that contractual arrangements between WFOE and PRC entity holding ICP License currently do not violate any PRC laws and regulations, and the BCA has never actively involved into the supervision or the punishment of such contractual arrangements. Our PRC Legal Advisor have advised that BCA, as the department in charge of supervision and substantive examination of application of ICP License, is the competent authority to give the relevant confirmation.

Before the completion of the Reorganization, 90.94% of the equity interests in Paqu Huyu were held by its registered shareholder, Mr. Wang, who is our executive Director, chairman of the Board and Chief Executive Officer. According to the Beijing CB Consultation and the BCA Consultation, any application introducing foreign shareholders to Paqu Huyu, our Company or our subsidiaries may not be possible and will result in a lengthy application process and an undue burden on our business operation, and therefore it is not feasible for our Company or our subsidiaries to hold any equity interest in Paqu Huyu. As a result, Beijing Pop Mart entered into the Contractual Arrangements with respect to the entire equity interests in Paqu Huyu.

Our Group will unwind and terminate the Contractual Arrangements as soon as practicable in respect of the future provision of our online culture services and internet information services to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under applicable PRC laws and regulations if the applicable PRC laws and regulations allow foreign ownership (or a higher percentage of foreign ownership than is currently permitted) or if the relevant government authority eases the substantive examination and discretion requirements for transfer of equity interests in a company holding ICP License and ICB License under applicable PRC laws and regulations.

For further details of the limitations on foreign ownership in PRC companies conducting the Relevant Businesses, and the licensing and approval requirements applicable to the Relevant Businesses under PRC laws and regulations, please refer to the sections headed “Regulation — Regulations on Value-added Telecommunications Services” of this Document.

REASONS FOR ADOPTION OF THE CONTRACTUAL ARRANGEMENTS

Paqu Huyu currently holds an ICP License and an ICB License, which are required for the operation of the Relevant Businesses.

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We plan to adopt the Contractual Arrangements for control of 100% equity interests in Paqu Huyu, and are of the view that the Contractual Arrangements are narrowly tailored.

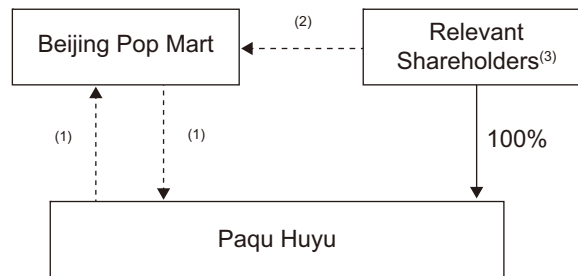
After consultation with our PRC Legal Advisor, we determined that it was not viable for our Group to directly hold any equity ownership in Paqu Huyu. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, we would gain effective control over, and receive all the economic benefits generated by the business currently operated by Paqu Huyu through the Contractual Arrangements between Beijing Pop Mart, an wholly-owned subsidiary of our Company established in the PRC, on the one hand, and Paqu Huyu and the Relevant Shareholders, on the other hand.

OVERVIEW OF THE CONTRACTUAL ARRANGEMENTS

In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our operations, we commenced the Reorganization. Pursuant to the Reorganization, the Contractual Arrangements have been entered into by Beijing Pop Mart with Paqu Huyu and the Relevant Shareholders, whereby Beijing Pop Mart will acquire effective control over the financial and operational policies of Paqu Huyu and will become entitled to all the economic benefits derived from their operations. We believe that the Contractual Arrangements are narrowly tailored, as they are used to enable us to conduct businesses in industries that are subject to foreign investment restrictions in the PRC. Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between Beijing Pop Mart and Paqu Huyu and the Relevant Shareholders; (ii) by entering into the Exclusive Consultation and Service Agreement with Beijing Pop Mart, Paqu Huyu will enjoy better economic and technical support from us, as well as a better market reputation after the [REDACTED], and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

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The following simplified diagram illustrates the flow of economic benefits from Paqu Huyu to our Group stipulated under the Contractual Arrangements after completion of the Reorganization:



"—" denotes legal and beneficial ownership in the equity interest

"....." denotes the Contractual Arrangements

- (1) Beijing Pop Mart provides software development and other technical consultation services in exchange for service fees from Paqu Huyu. See "Summary of the Contractual Arrangements — Exclusive Consultation and Service Agreement".
- (2) The Relevant Shareholders executed an exclusive option agreement in favour of Beijing Pop Mart, for the acquisition of 100% of the equity interests and/or assets in Paqu Huyu. See "Summary of the Contractual Arrangements — Exclusive Option Agreement".

The Relevant Shareholders pledged as first charge all of their respective equity interests in Paqu Huyu to Beijing Pop Mart as collateral security for any or all of their payments due to Beijing Pop Mart and to secure performance of their obligations under the Exclusive Consultation and Service Agreement, the Exclusive Option Agreement and the Voting Rights Proxy Agreement and Powers of Attorney. See "Summary of the Contractual Arrangements — Share Pledge Agreements".

The Relevant Shareholders executed the Voting Rights Proxy Agreement and Powers of Attorney in favour of Beijing Pop Mart, see "Summary of the Contractual Arrangements — Spouse Undertakings".

- (3) Mr. Wang, Mr. Song Quan, Ms. Zhang Lili, Mr. Wu Zhongfu, Mr. Zhao Jianyi, Ms. Zhou Lixia, Mr. Xiao Yang, Mr. Yang Xiaokuan, Mr. Mai Gang, Mr. Yang Jingbing, Ms. Li Shuangshuang, Mr. Wang Pei, Ms. Yu Chunxiao, Mr. Chen Hua, Ms. Yang Guifang, Ms. Ma Honghong, Mr. Yin Wei, Mr. Si De, Ms. Yang Tao, Mr. Zhou Lifeng, Mr. Cheng Fu, Mr. Zhang Chao, Mr. Wu Yi, Mr. Xing Zongyu, Mr. Yang Jigan, Ms. Yu Jing, Mr. Hu Jian, Mr. Cai Xiaodong, Mr. Xuan Yilang and Ms. Liu Ran are collectively referred to as the "Relevant Shareholders".

SUMMARY OF THE CONTRACTUAL ARRANGEMENTS

Exclusive Option Agreement

Paqu Huyu and its Relevant Shareholders entered into an exclusive option agreement with Beijing Pop Mart on December 18, 2019 upon completion of the Reorganization which (collectively, the "**Exclusive Option Agreement**"), pursuant to which Beijing Pop Mart (or a third party designated by it, the "**designee**") will be granted an irrevocable and exclusive right to purchase 100% of the equity interest in and/or assets of Paqu Huyu for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, the Relevant Shareholders shall return any amount of purchase price they have received to Paqu Huyu. At Beijing

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Pop Mart's request, the Relevant Shareholders and/or Paqu Huyu will promptly and unconditionally transfer their respective equity interests in and/or the relevant assets of Paqu Huyu to Beijing Pop Mart (or its designee) after Beijing Pop Mart exercises its purchase right. The Exclusive Option Agreement is for an initial term of 10 years. The Relevant Shareholders and Paqu Huyu shall agree to an extension of the term of the Exclusive Option Agreement if Beijing Pop Mart requests for extension before the expiry, and shall sign a new Exclusive Option Agreement or continue the obligations of this Exclusive Option Agreement as requested by Beijing Pop Mart.

As provided in the Exclusive Option Agreement, without the prior written consent of Beijing Pop Mart, Paqu Huyu shall not, among other things, (i) sell, transfer, pledge or dispose of in any manner any of its assets, business or income, or allow the aforementioned to be the subject of a guarantee; (ii) enter into any transaction which may adversely affect the assets, obligations, operations, shareholdings and other legal interests except if transaction is in the ordinary course of business or unless disclosed to and consented in writing to by Beijing Pop Mart; (iii) distribute any form of dividend and profit to each Shareholder; (iv) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business of Paqu Huyu or not disclosed and consented in writing to by Beijing Pop Mart; (v) execute any material contract (a material contract is defined as a contract with nominal value above RMB500,000), except if in the ordinary course of business; (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way by shareholders' resolution; (vii) supplement, modify or amend Paqu Huyu's Memorandum of Association in any way; and (viii) consolidate or merge with any third party, or acquire or invest in any third party. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on Beijing Pop Mart and us in the event of any loss suffered from Paqu Huyu and/or its subsidiaries can be limited to a certain extent.

In order to prevent the flow of the relevant assets and value of Paqu Huyu to the Relevant Shareholders, during the term of the Exclusive Option Agreement, Paqu Huyu is not allowed to make any distributions to its shareholder(s) without the prior written consent of Beijing Pop Mart. In the event that the Relevant Shareholders receive any interest other than dividend, profit and distribution from Paqu Huyu and subject to the PRC laws, the Relevant Shareholders must immediately pay or transfer such distribution to Beijing Pop Mart (or its designee). If Beijing Pop Mart exercises its purchase right, all or any part of the equity interests in and/or assets of Paqu Huyu acquired would be transferred to Beijing Pop Mart and the benefits of equity ownership and/or assets, as applicable, would flow to us and our Shareholders.

Our PRC Legal Advisor has advised us that the Exclusive Option Agreement is legal, valid and binding on the parties and is enforceable under applicable PRC laws and regulations. Since Paqu Huyu is not a state-owned enterprise, Paqu Huyu is able to enter into contracts with Beijing Pop Mart or its designee to provide for the acquisition of the relevant equity interests in and/or assets of Paqu Huyu by Beijing Pop Mart or its designee for a nominal price or pre-determined amount without being subject to any pre-examination, pre-approval procedures. In addition, Beijing Pop Mart or its designee can exercise its option to purchase the relevant equity interests in and/or assets of Paqu Huyu for a nominal price or a pre-determined amount in accordance with the relevant procedures stipulated in the Exclusive Option Agreement.

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Exclusive Consultation and Service Agreement

After completion of the Reorganization, Paqu Huyu entered into an Exclusive Consultation and Service Agreement with Beijing Pop Mart on December 18, 2019 (the "**Exclusive Consultation and Service Agreement**"), pursuant to which Paqu Huyu will agree to engage Beijing Pop Mart as its exclusive provider of software development and promotion, technical support, business cooperation consultation, market consultancy, customer management consultancy, public relations and human resources consultancy, market research, setting market development plans and other relevant consultation and services required by Paqu Huyu, in exchange for service fees. Under these arrangements, Beijing Pop Mart may adjust the service fees at its sole discretion, which will be wired to the designated account of Beijing Pop Mart upon issuance of payment notification by Beijing Pop Mart.

The primary obligation of Beijing Pop Mart is the provision of services to Paqu Huyu. Both Beijing Pop Mart and Paqu Huyu have control measures in place, which primarily include measures with respect to accounts payables and receivables, which require the review and approval by the relevant department(s) of Beijing Pop Mart and Paqu Huyu to confirm the services provided by Beijing Pop Mart and received by Paqu Huyu periodically. Further, to ensure that Beijing Pop Mart will not engage in the Relevant Businesses or any other restricted business in the PRC, Beijing Pop Mart has set up an internal control procedure, which requires the senior staff members of relevant departments to review the business to be entered into by Beijing Pop Mart. In addition, our legal department will review business contracts to be entered into by Beijing Pop Mart to ensure compliance with the applicable PRC laws, regulations and rules.

Intellectual property rights are developed during the normal course of business of Paqu Huyu. Pursuant to the Exclusive Consultation and Service Agreement, Beijing Pop Mart has the exclusive and proprietary rights to all intellectual properties developed by Paqu Huyu, given that Beijing Pop Mart provides consultation services to Paqu Huyu. Part of the economic benefits generated by Paqu Huyu will be intellectual properties developed or created during the normal business operation of Paqu Huyu. The services provided by Beijing Pop Mart typically include providing core technical services, such as programming, and management consultation services, while Paqu Huyu executes the ideas and supplement with details, such as art designing and text editing, and intellectual properties are developed in the process. Paqu Huyu is required under the Contractual Arrangements to obtain Beijing Pop Mart's prior written consent before they transfer, assign or dispose of any of the intellectual properties held and licensed by Beijing Pop Mart under the Exclusive Consultation and Service Agreement to any third party. Our PRC Legal Advisor is of the opinion that (i) such provision relating to the intellectual properties will not result in these agreements being challenged by the relevant government authorities in the PRC; (ii) it is legal for Paqu Huyu to hold the intellectual property rights in relation to our businesses; and (iii) Paqu Huyu is in material compliance with the requirements of the Administrative Measures for the Licensing of Telecommunication Business Operations (《電信業務經營許可管理辦法》) and the Circular of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services (《信息產業部關於加強外商投資經營增值電信業務管理的通知》).

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Unless terminated by Beijing Pop Mart prior to the expiry of the Exclusive Consultation and Service Agreement, it is for an initial term of 10 years and may be extended by Beijing Pop Mart for a term determined by Beijing Pop Mart, and shall sign a new Exclusive Consultation and Service Agreement or continue the obligations of this Exclusive Consultation and Service Agreement as requested by Beijing Pop Mart.

Share Pledge Agreement

Paqu Huyu, the Relevant Shareholders and Beijing Pop Mart entered into a share pledge agreement upon completion of the Reorganization on December 18, 2019 (collectively, the "**Share Pledge Agreement**"). Under the Share Pledge Agreement, the Relevant Shareholders will pledge as first charge all of their respective equity interests in Paqu Huyu to Beijing Pop Mart as collateral security for any or all of their payments due to Beijing Pop Mart and to secure performance of their obligations under the Exclusive Consultation and Service Agreement, the Exclusive Option Agreement and the Voting Rights Proxy Agreement. The Share Pledge Agreement will not terminate until (i) Beijing Pop Mart exercises its unilateral and unconditional right of termination, and (ii) all obligations under the contractual arrangements of Paqu Huyu and the Relevant Shareholders are satisfied in full. In addition, under the Exclusive Option Agreement, none of the Relevant Shareholders nor Paqu Huyu may transfer or permit the encumbrance of any of their equity interests in and the relevant assets of Paqu Huyu (including any equity interests in and the relevant assets of the subsidiaries of Paqu Huyu) without Beijing Pop Mart's prior written consent. Should an event of default (as provided in the Share Pledge Agreement) occur, unless it is successfully resolved to Beijing Pop Mart's satisfaction, Beijing Pop Mart may demand in writing that the Relevant Shareholders and/or Paqu Huyu immediately pay all outstanding payments due under the Exclusive Consultation and Service Agreement and the Exclusive Option Agreement, repay any loans and make all other payments due under both agreements, or seek for implementation of both agreements. Beijing Pop Mart is entitled to implement the pledge under the Share Pledge Agreement if the above default is not successfully resolved to Beijing Pop Mart's satisfaction within 10 days upon the written demand. The pledges under the Share Pledge Agreement have been duly registered with the relevant PRC legal authority pursuant to PRC laws and regulations.

Voting Rights Proxy Agreement

A Voting Rights Proxy Agreement has been entered into between the Relevant Shareholders, Beijing Pop Mart and Paqu Huyu upon completion of the Reorganization on December 18, 2019, whereby the Relevant Shareholders will irrevocably appoint Beijing Pop Mart or a designated person as their exclusive agent and attorney to act on their behalf on all matters concerning Paqu Huyu and to exercise all of their rights as a registered shareholder of Paqu Huyu. These rights include (i) the right to propose, convene and attend shareholders' meetings; (ii) the right to exercise shareholders' voting rights, including but not limited to the right to appoint and elect company directors and other senior management members of which shareholders have the right to appoint; (iii) the right to exercise shareholders' voting rights under Paqu Huyu's memorandum of association (including the rights granted

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after the amendment of the memorandum of association); and (iv) the right to sign shareholders meetings notices, memorandums and resolutions, represent existing shareholders in the submission of documents pertaining to Paqu Huyu's business operations' approval, registration and filing. The authorized person is entitled to sign minutes and file documents with the relevant company registry. As a result of the Powers of Attorney, we, through Beijing Pop Mart, is able to exercise management control over the activities that most significantly impact the economic performance of Paqu Huyu.

The Voting Rights Proxy Agreement also provided that, in order to avoid potential conflicts of interest, where the Relevant Shareholders are officers or directors of our Group, the powers of attorney are granted in favor of other unrelated officers or the Directors of our Group.

The Voting Rights Proxy Agreement shall terminate upon 30 days of written notice given by Beijing Pop Mart once Beijing Pop Mart has exercised its right to purchase all equity interest or assets of Paqu Huyu under the Exclusive Options Agreement. Paqu Huyu has no right to unilaterally terminate the Voting Rights Proxy Agreement unless provided by law. The Voting Rights Proxy Agreement shall terminate upon expiry, unless extended based on relevant provisions of the Voting Rights Proxy Agreement. The Voting Rights Proxy Agreement shall terminate prior to expiry only when Beijing Pop Mart has committed gross negligence, fraud, other illegal activities, declares bankrupt or enters into liquidation. Shall Beijing Pop Mart declares bankrupt or enters into liquidation prior to the expiry of the Voting Rights Proxy Agreement, the Voting Rights Proxy Agreement shall terminate automatically. Despite the provisions mentioned, Beijing Pop Mart has the power to terminate the Voting Rights Proxy Agreement at any time given 30 days of written notice to the Relevant Shareholders and Paqu Huyu.

Spouse Undertakings

Each of the spouses of the Relevant Shareholders executed an irrevocable undertaking on December 18, 2019, whereby he/she expressly and irrevocably acknowledged and undertook that (i) any equity interests held by his/her spouse as a registered shareholder in Paqu Huyu do not fall within the scope of their communal properties; (ii) he/she will not take any measures that are in conflict with the Contractual Arrangements; and (iii) he/she had never participated and will not participate in the operation or management of Paqu Huyu.

Dispute Resolution

Each of the Contractual Arrangements stipulates that the parties shall negotiate in good faith to resolve the dispute in the event of any dispute with respect to the construction and performance of their provisions. For the Exclusive Consultation and Service Agreement, the Exclusive Option Agreement and the Voting Rights Proxy Agreement, in the event the parties fail to reach an agreement on the resolution of such a dispute within 30 days after any party's request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the Beijing Arbitration Commission for arbitration, in accordance with the then effective

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arbitration rules. The arbitration shall be conducted in Beijing, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties.

However, our PRC Legal Advisor has advised that (i) a tribunal normally would not grant injunctive relief or winding up order of Paqu Huyu under PRC laws; (ii) interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; and (iii) even if the abovementioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreement under the Contractual Arrangements.

As a result of the above, in the event that Paqu Huyu or the Relevant Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over Paqu Huyu and conduct our business could be materially and adversely affected. Please refer to the section headed "Risk Factors — Risks Relating to our Contractual Arrangements" of this Document for details.

Succession

The provisions set out in the Contractual Arrangements are also binding on the successors of the Relevant Shareholders, as if the successors were signing parties to the Contractual Arrangements. Under the succession laws of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, Beijing Pop Mart can enforce its rights against the successors. Pursuant to the Contractual Arrangements, any inheritor of the Relevant Shareholders shall inherit any and all rights and obligations of the registered shareholders under the Contractual Arrangements as a result of their death, loss of capacity, marriage, divorce, bankruptcy or under other circumstance which would affect their exercise of equity interest in Paqu Huyu, as if the inheritor was a signing party to such Contractual Arrangements.

According to the terms of the Voting Rights Proxy Agreement, each of the Relevant Shareholders has undertaken, (i) in the event of death or loss of capacity or any other events that could possibly affect his exercise or fulfillment of the rights and obligations as a shareholder of Paqu Huyu; or (ii) in the event of the bankruptcy or dissolution, or any events that could possibly affect its exercise or fulfillment of the rights and obligations as a shareholder of Paqu Huyu, his or its successor in the undertakings of the Relevant Shareholders shall assume all the rights and obligations of the Relevant Shareholders under the Exclusive Option Agreement.

Based on the foregoing, our PRC Legal Advisor is of the view that (i) the Contractual Arrangements provide protection to us even in the event of loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the Relevant Shareholders; and (ii) loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the Relevant Shareholders would not affect the validity of the Contractual

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Arrangements, and Beijing Pop Mart can enforce its rights under the Contractual Arrangements against the successors of such shareholders.

Arrangements to Address Potential Conflicts of Interests

The Relevant Shareholders will undertake that, during the period that the Contractual Arrangements remain effective,

- (i) (a) they shall not execute any documents with or make any undertaking to any third parties that may have conflicts of interests with any agreements entered into by Beijing Pop Mart or Paqu Huyu, (b) they shall not commit or refrain from committing any act that may lead to any conflicts of interests between the Relevant Shareholders and Beijing Pop Mart (including its shareholders) and (c) in the event of the occurrence of a conflict of interests (where Beijing Pop Mart has the sole absolute discretion to determine whether such conflict arises), they shall take appropriate measures upon the consent of Beijing Pop Mart and its designee to eliminate such conflicts, failing which Beijing Pop Mart has the right to exercise the option under the Exclusive Option Agreement; and
- (ii) unless otherwise agreed to by Beijing Pop Mart in writing, they will not (a) directly or indirectly participate or engage in any business which is or may potentially be in competition with the businesses of Paqu Huyu, (b) be employed by an entity whose operation is or may potentially be in competition with the businesses of Paqu Huyu or hold interest in or assets of such entities, save that ownership of an equity interest of up to 5% is permitted, where Beijing Pop Mart has the absolute discretion whether such conflict arises.

The Voting Rights Proxy Agreement also provide that, in order to avoid potential conflicts of interest, where the Relevant Shareholders are officers or directors of our Group, the Voting Rights Proxy Agreement are granted in favor of other unrelated officers or Directors of our Group.

Loss Sharing

None of the agreements constituting the Contractual Arrangements provides that our Company or Beijing Pop Mart is obligated to share the losses of Paqu Huyu, but if Paqu Huyu suffers any losses or material difficulties of business, Beijing Pop Mart may provide financial support as permitted under PRC laws at its discretion to Paqu Huyu under the terms of the Exclusive Consultation and Service Agreement. Further, Paqu Huyu is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, our Company or Beijing Pop Mart is not expressly required to share the losses of Paqu Huyu or provide financial support to Paqu Huyu. Despite the foregoing, given that we conduct the Relevant Businesses in the PRC through Paqu Huyu which holds the requisite PRC license and approvals and that Paqu Huyu's results of operations and assets and liabilities are consolidated into our results of operations and assets and liabilities under the applicable accounting principles, our business, financial condition and results of operations would be adversely affected if Paqu Huyu suffered losses.

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Insurance

We do not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Company's confirmation

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating the Relevant Businesses through Paqu Huyu under the Contractual Arrangements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Beijing Pop Mart's right to deal with the pledged equity interest in Paqu Huyu according to the Share Pledge Agreement and its option to acquire the relevant equity interest in and/or the relevant assets of Paqu Huyu under the Exclusive Option Agreement are confined to be carried out in a manner as permitted by the relevant PRC laws. Further, the pledges created under the Share Pledge Agreement shall only become effective upon its due registration with the relevant Administration for Industry and Commerce of the PRC. Based on the above, our PRC Legal Advisor is of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations.

Our PRC Legal Advisor is also of the opinion that:

- (i) each of Beijing Pop Mart and Paqu Huyu is an independent legal entity which is duly incorporated, and their respective establishment is valid, effective and complies with the relevant PRC laws; each of Beijing Pop Mart and Paqu Huyu has also obtained necessary approvals and completed registration procedures as required by the applicable PRC laws and regulations;
- (ii) each of the agreements under the Contractual Arrangements is legal, valid and binding on the parties thereto;
- (iii) none of the agreements under the Contractual Arrangements violates any provisions of the articles of association of Paqu Huyu;
- (iv) the Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that the pledges under the Share Pledge Agreement are required to be registered with the relevant Administration of Industry and Commerce, which had already been duly completed on January 19, 2020;
- (v) the Contractual Arrangements are not in violation of applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of Paqu Huyu, injunctive relief and/or winding up of Paqu Huyu, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under

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PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in Paqu Huyu in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; and

- (vi) the consummation of the contemplated [REDACTED] is not a violation of the Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which was adopted by six PRC regulatory agencies, including MOFCOM and the China Securities Regulatory Commission, and effective since September 2006 and amended on June 22, 2009.

However, we have been advised by our PRC Legal Adviser that there are uncertainties regarding the interpretation and application of the current and future PRC laws and regulations over validity of the Contractual Arrangements. Accordingly, there can be no assurance that PRC regulatory authorities will not take a view that is contrary or otherwise different from the above opinions of our Legal Advisers in the future.

We are aware of a Supreme People's Court ruling (the "**Supreme People's Court Ruling**") made in October 2012 and two arbitral decisions from the Shanghai International Economic and Trade Arbitration Commission made in 2010 and 2011 which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in the PRC contravene the prohibition against "concealing an illegitimate purpose under the guise of legitimate acts" set out in Article 52 of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of PRC courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC and (ii) the incentive for the Relevant Shareholders to renege on their contractual obligations. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; or (v) the contract violates the mandatory provisions of the laws and administrative regulations. Our PRC Legal Advisor is of the view that the relevant terms of our Contractual Arrangements do not fall within any of the above five circumstances. In particular, our PRC Legal Advisor is of the view that the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" such that they also do not fall within circumstance (iv) above under Section 52 of the PRC Contract law because the Contractual Arrangements were not entered into for illegitimate purposes. The purpose of the Contractual Arrangements are (a) to enable Paqu Huyu to transfer its relevant economic benefits to Beijing Pop Mart as service fees for engaging Beijing Pop Mart as its exclusive service provider and (b) to ensure that the Relevant Shareholders do not take any actions that are contrary to the interests of Beijing Pop Mart. In

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accordance with Article 4 of the PRC Contract Law, which is a section of the Part One (General Principles) of the PRC Contract Law setting forth fundamental principles under the PRC Contract Law, the parties to the Contractual Arrangements have the right to enter into contracts in accordance with their own wishes and no person may illegally interfere with such right. In addition, the effect of the Contractual Arrangements, which is to allow our Company to [REDACTED] on the Stock Exchange while obtaining all the economic benefits of Paqu Huyu, is not for an illegitimate purpose, as evidenced by the fact that a number of currently [REDACTED] companies also adopt similar contractual arrangements. In conclusion, the Contractual Arrangements do not fall within any of the five circumstances set forth in Article 52 of the PRC Contract Law.

Given that the Contractual Arrangements will constitute non-exempt continuing connected transactions of our Company, a waiver has been sought from and [has been] granted by the Stock Exchange, details of which are disclosed in the section headed "Connected Transactions" of this Document.

Foreign Investment Law

On March 15, 2019, the Foreign Investment Law has been formally adopted by the National People's Congress of the PRC and took effect on January 1, 2020. The Foreign Investment Law stipulates certain forms of foreign investment:

- foreign investors set up foreign invested enterprises in China severally or jointly with other investors;
- foreign investors acquire shares, equity, properties or other similar interests in any domestic enterprise;
- foreign investors invest in new projects in China severally or jointly with other investors; and
- foreign investors invest through any other methods under laws, administrative regulations, or provisions prescribed by the State Council.

The Foreign Investment Law stipulates restrictions of foreign investment in certain industry sectors. The "negative list" set out in the Foreign Investment Law classifies the relevant prohibited and restricted industries into the "Catalog of Prohibitions" and the "Catalog of Restrictions", respectively:

- **Catalog of Prohibitions:** Foreign investors are not allowed to invest in any sector set out in the Catalog of Prohibitions.
- **Catalog of Restrictions:** Foreign investors are allowed to invest in sectors set out in the Catalog of Restrictions, provided that they fulfill certain conditions and apply for permission before making such investment.

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However, the Foreign Investment Law does not specify the businesses to be included in the Catalog of Restrictions and the Catalog of Prohibitions.

Where any foreign investor directly or indirectly holds shares, equity, properties or other interests in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalog of Prohibitions. Foreign investors are allowed to invest in sectors set out in the Catalog of Restrictions, subject to certain conditions. Foreign investors are allowed to invest in any sector beyond the "negative list" and shall be managed on the same basis as domestic investments unless otherwise provided by laws and administrative regulations.

Where a foreign investor invests in the sectors specified in the Catalog of Prohibitions, the relevant competent departments shall order it to stop the investment activities, and dispose of the shares, properties or other necessary measures within a time limit to restore the state before the investment is implemented and the illegal income shall be confiscated (if any). Where the investment activities of a foreign investor violate the restrictive special management measures stipulated in the sectors specified in the Catalog of Restrictions, the relevant competent departments shall order it to make corrections within a time limit and take necessary measures to meet the requirements for access to special management measures; where the offender refuses to make corrections, punishments are implemented according to the provisions of the preceding sentence.

Furthermore, the Foreign Investment Law does not specifically stipulate rules on the industry we operate in. The Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment. Our PRC legal advisor advised that, since contractual arrangements are not specified as investments under the Foreign Investment Law, and if future laws, administrative regulations, provisions of the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investors investing through any other methods stipulated under laws, administrative regulations or provisions of the State Council may be considered as a form of foreign investment. It is therefore possible that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment. However, as of the Latest Practicable Date, it is uncertain as to how the contractual arrangements will be handled. For details, please see "Risk Factors — Risks Relating to Our Contractual Arrangements — Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations".

QUALIFICATION REQUIREMENTS

In addition to restrictions on foreign ownership, there are also regulatory requirements on the experience and operations of a foreign investor who intends to operate a VATS business in the PRC.

CONTRACTUAL ARRANGEMENTS

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the "**FITE Regulations**"), which were amended on September 10, 2008 and February 6, 2016, respectively. According to the FITE Regulations, foreign investor who invests in VATS business in the PRC must possess the qualification requirement of VATS (the "**Qualification Requirements**"). The MIIT issued a guidance memorandum on its official website in relation to the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, the applicant's [REDACTED] for the past three years, satisfactory proof of the Qualification Requirements and business development plan. The guidance memorandum, however, does not provide any further guidance on the proof, record or document required to support the application and does not purport to provide an exhaustive list on the application requirement. Our PRC Legal Advisor has advised that, as of the date hereof, no applicable PRC laws, regulations or rules provided clear guidance or interpretation on the Qualification Requirements.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have taken measures to meet the Qualification Requirements for the purposes of being qualified, as early as possible, to acquire the entire equity interests in Paqu Huyu when the relevant PRC laws and authorities allow foreign investors to invest and hold (or to increase, as applicable) equity interests in enterprises which holds the ICP License. For example, (i) we have incorporated a number of overseas entities for the purpose of expanding our businesses overseas, and (ii) we have entered into agreements with third parties in relation to the operation and management of a number of domain names for the purpose of promoting our products and services overseas. We also plan to take other preparatory measures including operating the business of the internet information services overseas.

Based on the BCA Consultation, the BCA confirmed that (i) there is no clear guidance about how a foreign investor can meet the Qualification Requirements, (ii) it applies a relatively different standard for identifying whether a foreign investor meets the Qualification Requirements, and (iii) it will only make a final determination as to whether the Qualification Requirements are satisfied when it receives the detailed application materials and examine the specific facts relating to such application.

Subject to the discretion of the BCA in determining whether our Group has fulfilled the Qualification Requirements, our PRC Legal Advisor is of the view that the above steps taken and to be taken by us may be deemed by the relevant PRC government authorities to satisfy the Qualification Requirements as we have experience in providing VATS in overseas markets, which is in accordance with the applicable PRC laws and regulations.

CONTRACTUAL ARRANGEMENTS

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Consolidation of Financial Results of Paqu Huyu

According to IFRS 10 — Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own Paqu Huyu, the Contractual Arrangements as mentioned above enable our Company to exercise control over Paqu Huyu.

Under the Exclusive Consultation and Service Agreement entered into by and between Beijing Pop Mart and Paqu Huyu, it was agreed that, in consideration of the services provided by Beijing Pop Mart, Paqu Huyu will pay service fees to Beijing Pop Mart. The service fees, subject to Beijing Pop Mart's adjustment, are equal to all of the net profit of Paqu Huyu and may also include retained earnings of Paqu Huyu from previous financial periods. Beijing Pop Mart may adjust the service fees at its sole discretion and allow Paqu Huyu to retain sufficient working capital to carry out any growth plans. Paqu Huyu shall deliver to Beijing Pop Mart their respective management accounts and operating statistics periodically. Accordingly, Beijing Pop Mart has the ability, at its sole discretion, to extract substantially all of the economic benefit of Paqu Huyu through the Exclusive Consultation and Service Agreement.

In addition, under the Exclusive Option Agreement among the parties, Beijing Pop Mart has absolute control over the distribution of dividends or any other amounts to the shareholders of Paqu Huyu as Beijing Pop Mart's prior written consent is required and Beijing Pop Mart can request for immediate distribution of profits to be made.

Further, under the Voting Rights Proxy Agreement, Beijing Pop Mart assumes all rights as shareholder and exercises control over Paqu Huyu, including the right to propose, convene and attend shareholders' meetings, the right to sell, transfer, pledge or dispose of shares, the right to exercise shareholders' voting rights and to appoint the legal representative (chairperson), the director, supervisor, the chief executive officer (general manager) and other senior management members appointed by the shareholders' meetings of Paqu Huyu. As a result of these agreements, we have obtained control of Paqu Huyu through Beijing Pop Mart and, under our sole discretion, can receive substantially all of the economic interest returns generated by Paqu Huyu. Accordingly, Paqu Huyu's results of operations, assets and liabilities, and cash flows are consolidated into our financial statements.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Upon the completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] is not exercised and no Shares are issued under the [REDACTED] Share Award Scheme), Mr. Wang will be interested in and will control an aggregate of approximately [REDACTED]% of our enlarged issued share capital through (i) GWF Holding, a limited liability company incorporated in the BVI and wholly-owned by UBS Trustees (B.V.I.) Ltd. as trustee for a trust, established by Mr. Wang (as settlor) for the benefit of Mr. Wang, and which owns [REDACTED]% of our enlarged issued share capital, (ii) Pop Mart Hehuo Holding Limited, a company incorporated in the BVI and 43.2% owned by Mr. Wang, which owns [REDACTED]% of our enlarged issued share capital and (iii) Tianjin Paqu Holding Limited, a company incorporated in the BVI and wholly-owned by Mr. Wang, which own [REDACTED]% of our enlarged issued share capital.

Therefore, Mr. Wang and GWF Holding will be the Controlling Shareholders of our Company after [REDACTED].

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are able to carry on our business independently of our Controlling Shareholders and their close associates after [REDACTED].

Management Independence

Our business is managed and conducted by our Board and senior management. Upon [REDACTED], our Board will consist of nine Directors comprising four executive Directors, two non-executive Directors and three independent non-executive Directors. For more information, please see the section headed "Directors and Senior Management" in this Document.

Our Directors consider that our Board and senior management will function independently of our Controlling Shareholders because:

- (a) each Director is aware of his or her fiduciary duties as a director which require, among other things, that he or she acts for the benefit and in the interest of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interests;
- (b) our daily management and operations are carried out by a senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;
- (c) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;
- (d) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

respective associates, the interested Director(s) is required to declare the nature of such interest before voting at the relevant Board meetings of our Company in respect of such transactions; and

- (e) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. Please see “— Corporate Governance Measures” in this section below for further information.

Based on the above, our Directors believe that our Board as a whole and together with our senior management team are able to perform the managerial role independently from our Controlling Shareholders.

Operational Independence

Our Group is not operationally dependent on our Controlling Shareholders. Our Company (through our subsidiaries and our PRC Operating Entity, Paqu Huyu) holds all relevant licenses and owns all relevant intellectual properties and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers and an independent management team to operate our business.

In addition, pursuant to the Contractual Arrangements, our Directors are authorized to exercise all of the rights of the Relevant Shareholders. Our Group is entitled to enjoy all the economic benefits of Paqu Huyu and to exercise management control over the operations of Paqu Huyu. Pursuant to the Exclusive Option Agreement, our Company has been granted an irrevocable and exclusive right to purchase 100% of Paqu Huyu’s equity interest and assets which are not owned by our Group for a nominal price, unless the relevant government authorities or PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. In addition, pursuant to the Exclusive Consultation and Service Agreement, our Company has the exclusive and proprietary rights to all intellectual properties developed by Paqu Huyu, given that Paqu Huyu provides consultation services to our Company.

Based on the above, our Directors believe that we are able to operate independently of our Controlling Shareholders.

Financial Independence

Our Group has an independent financial reporting system and makes financial decisions according to our Group’s own business needs. We have internal control and accounting systems and an independent finance department for discharging the treasury function. More importantly, we have been and are capable of obtaining financing from third parties, if necessary, without relying on our Controlling Shareholders.

There are no outstanding loans or guarantees provided by, or granted to, our Controlling Shareholders or their respective associates during the Track Record Period and as of the [REDACTED].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Based on the above, our Directors are of the view that our Directors and senior management are capable of carrying on our business independently of, and do not place undue reliance on, our Controlling Shareholders after [REDACTED].

COMPETITION ISSUE UNDER RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Company will comply with the provisions of the Corporate Governance Code, which sets out principles of good corporate governance.

Our Directors recognize the importance of good corporate governance in protection of our Shareholders' interest. We will adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders:

- (a) where a Shareholders' meeting is to be held for considering proposed transactions in which the Controlling Shareholders or any of their associates has a material interest, the Controlling Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon [REDACTED], if our Company enters into connected transactions with Controlling Shareholders or any of their associates, our Company will comply with the applicable Listing Rules;
- (c) the independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between our Group and our Controlling Shareholders (the "**Annual Review**") and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;
- (e) our Company will disclose decisions (with basis) on matters reviewed by the independent non-executive Directors either in its annual report or by way of announcements;
- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company's expenses; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (g) we have appointed Guotai Junan Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority Shareholders' interests after [REDACTED].

CONNECTED TRANSACTIONS

OVERVIEW

We have entered into certain agreements with our Connected Persons. Following [REDACTED], the transactions contemplated under such agreements will constitute our continuing connected transactions under the Listing Rules.

Details of the continuing connected transactions of the Group following the [REDACTED] are set out below.

CONNECTED PERSONS

Following the [REDACTED], the following parties, which have entered into certain written agreements with our Group, will be connected persons of our Group:

<u>Name</u>	<u>Connected Relationship</u>
Mr. Wang	Executive Director, Chairman of the Board, Chief Executive Officer and substantial shareholder of our Company and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules
Ms. Yang Tao	Executive Director and substantial shareholder of our Company and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules
Mr. Si De	Executive Director of our Company and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules
Ms. Liu Ran	Executive Director of our Company and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules
Mr. Xuan Yilang	Former Director of our Company and therefore a connected person of our Company under Rule 14A.07(2) of the Listing Rules
Mr. Hu Jian	Director of Beijing Pop Mart Cultural & Creative Co., Ltd. (北京泡泡瑪特文化創意有限公司), Shenzhen Pop Mart Trading Co., Ltd (深圳泡泡瑪特貿易有限公司), Chengdu Pop Mart Trading Co., Ltd (成都泡泡瑪特貿易有限公司), Chongqing Paqu Trading Co., Ltd. (重慶葩趣貿易有限公司), Guiyang Pop Mart Trading Co., Ltd. (貴陽泡泡瑪特貿易有限公司) and Guangzhou Pop Mart Trading Co., Ltd (廣州泡泡瑪特貿易有限公司), all of which are indirect wholly-owned subsidiaries of our Company and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules

CONNECTED TRANSACTIONS

<u>Name</u>	<u>Connected Relationship</u>
Ms. Ma Honghong	Director of Beijing Paqu Trading Co., Ltd (北京葩趣貿易有限公司), an indirect wholly-owned subsidiary of our Company and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules
Mr. Song Quan	Director of Xian Pop Mart Trading Co., Ltd. (西安泡泡瑪特貿易有限公司), an indirect wholly-owned subsidiary of our Company and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules
Ms. Yu Chunxiao	Director of Changsha Paqu Trading Co., Ltd (長沙葩趣貿易有限公司), Jinan Paqu Trading Co., Ltd. (濟南葩趣貿易有限公司), Xiamen Paqu Trading Co., Ltd, (廈門葩趣貿易有限公司), Wuhan Pop Mart Trading Co., Ltd (武漢泡泡瑪特貿易有限公司), Taiyuan Pop Mart Trading Co., Ltd (太原泡泡瑪特貿易有限公司), Dalian Pop Mart Trading Co., Ltd. (大連泡泡瑪特貿易有限公司), Haerbin Paqu Trading Co., Ltd. (哈爾濱葩趣商貿有限公司), Fuzhou Paqu Trading Co., Ltd. (福州葩趣貿易有限公司), Changchun Pop Mart Trading Co., Ltd. (長春泡泡瑪特貿易有限公司) Shenyang Paqu Trading Co., Ltd (沈陽葩趣貿易有限公司), and Jiangxi Paqu Trading Co., Ltd. (江西葩趣商貿有限公司), all of which are indirect wholly-owned subsidiaries of our Company and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules
Mr. Yang Jingbing	Director of Pop Mart Korea, which is an indirectly non-wholly-owned subsidiaries of our Company and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules
Mr. Moon Duk II	Director of Pop Mart Korea which is an indirectly non-wholly-owned subsidiary of our Company and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Contractual Arrangements

Background for the Contractual Arrangements

As disclosed in the section headed "Contractual Arrangements" of this Document, due to regulatory restrictions on foreign ownership in the PRC, we are prohibited from directly owning any equity interest in Paqu Huyu. Therefore, in order for the Group to effectively control and enjoy the entire economic benefit of Paqu Huyu, a series of Contractual Arrangements have been entered into among Beijing

CONNECTED TRANSACTIONS

Pop Mart, Paqu Huyu, and the Relevant Shareholders. The Contractual Arrangements enable us to (i) receive substantially all of the economic benefits from Paqu Huyu in consideration for the services provided by Beijing Pop Mart to Paqu Huyu; (ii) exercise effective control over Paqu Huyu; and (iii) hold an exclusive option to purchase all or part of the equity interests in Paqu Huyu when and to the extent permitted by PRC law.

Principal Terms of the Transactions

The Contractual Arrangements consist of 5 types of agreements: (a) the Exclusive Option Agreement; (b) the Exclusive Consultation and Service Agreement; (c) the Share Pledge Agreement; (d) the Voting Rights Proxy Agreement and Powers of Attorney; and (e) the Spouse Undertakings. See the section headed "Contractual Arrangements" in this Document for detailed terms of the Contractual Arrangements.

Listing Rules implications

The highest applicable percentage ratios (other than profits ratio) under the Listing Rules in respect of the transactions associated with the Contractual Arrangements are expected to be more than 5%. As such, the transactions will be subject to reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reasons for the Waiver Application and the View of Our Directors on the Continuing Connected Transaction

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and the Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, the Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules.

In addition, given the Contractual Arrangements were entered into prior to the [REDACTED] and are disclosed in this Document, and potential [REDACTED] of our Company will participate in the [REDACTED] on the basis of such disclosure, our Directors consider that compliance with the announcement and the independent shareholders' approval requirements in respect thereof immediately after [REDACTED] would add unnecessary administrative costs to our Company.

CONNECTED TRANSACTIONS

APPLICATION FOR AND CONDITIONS FOR WAIVER

In relation to the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange [has] granted, a waiver from strict compliance with (i) the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are [REDACTED] on the Stock Exchange subject however to the following conditions

- (a) *No change without independent non-executive Directors' approval* — No change to the Contractual Arrangements (including with respect to any fees payable to Beijing Pop Mart thereunder) will be made without the approval of the independent non-executive Directors.
- (b) *No change without independent Shareholders' approval* — Save as described in "(d) Renewal and Reproduction" below, no change to the agreements constituting the Contractual Arrangements will be made without the approval of our Company's independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the [REDACTED] of our Company (as set out in "Ongoing Reporting and Approvals below") will however continue to be applicable.
- (c) *Economic Benefits Flexibility* — The Contractual Arrangements shall continue to enable our Group to receive the entire economic benefits derived by Paqu Huyu through (i) our Group's option (if and when so allowed under the applicable PRC laws) to acquire all or part of the entire equity interests in Paqu Huyu for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the entire profit generated by Paqu Huyu is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Beijing Pop Mart by Paqu Huyu under the Exclusive Consultation and Service Agreement, and (iii) the Group's right to control the management and operation of, in substance, all of the voting rights of Paqu Huyu.
- (d) *Renewal and reproduction* — On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and Paqu Huyu, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign

CONNECTED TRANSACTIONS

owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or Substantial Shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

- (e) *Ongoing reporting and approvals* — Our Group will disclose details relating to the Contractual Arrangements on an on-going basis as follows:
- The Contractual Arrangements in place during each financial period will be disclosed in our Company's [REDACTED] and accounts in accordance with the relevant provisions of the Listing Rules.
 - Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's [REDACTED] and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by Paqu Huyu to the Relevant Shareholders which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and Paqu Huyu during the relevant financial period under paragraph (iii) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.
 - Our Company's auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by Paqu Huyu to the Relevant Shareholders which are not otherwise subsequently assigned or transferred to our Group.
 - For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", Paqu Huyu will be treated as our Company's wholly-owned subsidiary, and at the same time, the directors, chief executive officers or substantial shareholders of Paqu

CONNECTED TRANSACTIONS

Huyu and their respective associates will be treated as connected persons of our Company (excluding for this purpose, Paqu Huyu), and transactions between these connected persons and our Group (including for this purpose, Paqu Huyu), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

- Paqu Huyu will undertake that, for so long as the Shares are [REDACTED] on the Stock Exchange, Paqu Huyu will provide our Group's management and our Company's auditors full access to its relevant records for the purpose of our Company's auditors' review of the connected transactions.

DIRECTORS' AND JOINT SPONSORS' VIEW

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and the Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, the Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules.

The Joint Sponsors have reviewed the relevant documents and information provided by our Group, have obtained necessary representations and confirmations from our Company and the Directors and have participated in the due diligence and discussions with the management and the PRC Legal Advisor. Based on the above, the Joint Sponsors are of the view that the Contractual Arrangements are fundamental to our Group's legal structure and business operations and that the Contractual Arrangements have been entered into in the ordinary and usual course of business, on normal commercial terms and are fair and reasonable and are in the interests of the Shareholders as a whole.

The Joint Sponsors are of the view that with respect to the term of the relevant agreements underlying the Contractual Arrangements which is of an indefinite duration, it is a justifiable and normal business practice to ensure that (i) the financial and operational policies of Paqu Huyu can be effectively controlled by Beijing Pop Mart, (ii) Beijing Pop Mart can obtain the entire economic benefits derived from Paqu Huyu, and (iii) any possible leakages of assets and values of Paqu Huyu can be prevented, on an uninterrupted basis.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board of Directors comprises nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. The following table sets out information in respect of the Directors of our Company:

Name	Age	Position	Roles and responsibilities	Date of joining our Group	Date of appointment as a Director
Mr. Wang Ning (王寧)	33	Executive Director, Chairman of the Board and Chief Executive Officer	Responsible for overall strategic planning and management	October 20, 2010	May 9, 2019
Ms. Yang Tao (楊濤)	33	Executive Director and Vice President	Responsible for overseeing the product department	October 20, 2010	May 9, 2019
Ms. Liu Ran (劉冉)	32	Executive Director and Vice President	Responsible for overseeing the offline business department	July 1, 2011	May 9, 2019
Mr. Si De (司徒)	31	Executive Director and Chief Operating Officer	Responsible for overall operations and overseeing the online business department and the human resources department	March 2, 2015	June 29, 2019
Mr. Tu Zheng (屠錚)	42	Non-executive Director	Responsible for providing professional advice to the Board	September 11, 2017	May 9, 2019
Mr. He Yu (何愚)	39	Non-executive Director	Responsible for providing professional advice to the Board	April 24, 2019	May 9, 2019
Mr. Zhang Jianjun (張建君)	53	Independent non-executive Director	Providing independent opinion and judgment to the Board	[REDACTED]	[REDACTED]

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Roles and responsibilities	Date of joining our Group	Date of appointment as a Director
Mr. Wu Liansheng (吳聯生)	49	Independent Non-executive Director	Providing independent opinion and judgment to the Board	[REDACTED]	[REDACTED]
Mr. Ngan King Leung Gary (顏勁良)	37	Independent Non-executive Director	Providing independent opinion and judgment to the Board	[REDACTED]	[REDACTED]

Executive Directors

Mr. Wang Ning (王寧), aged 33, is our executive Director, Chairman of the Board and Chief Executive Officer of our Company. Mr. Wang founded our Group in October 2010, and is responsible for the overall strategic planning and management of our Company.

Mr. Wang received his bachelor's degree in advertising from Sias International College of Zhengzhou University (鄭州大學西亞斯國際學院) (currently known as Sias University) in the PRC in June 2009, and his master's degree in business administration from Guanghua School of Management of Peking University (北京大學光華管理學院) in the PRC in June 2017.

Mr. Wang is currently a director of certain principal subsidiaries of our Company including, Beijing Pop Mart, Paqu Huyu, Pop Mart (Hong Kong) Holding Limited and Tianjin Pop Mart Cultural Communication Co., Ltd. (天津泡泡瑪特文化傳播有限公司).

Mr. Wang is the spouse of Ms. Yang Tao, our executive Director.

Ms. Yang Tao (楊濤), aged 33, is our executive Director and vice president. Ms. Yang joined our Group in October 2010, and is responsible for overseeing the product development department of our Company.

Ms. Yang received her bachelor of general study degree from Fort Hays State University in the United States in May 2009, and her master's degree in communication studies from Hong Kong Baptist University in Hong Kong in November 2010.

Ms. Yang is currently a director of Beijing Pop Mart, a principal subsidiary of our Company.

Ms. Yang is the spouse of Mr. Wang, our executive Director, Chairman of the Board and Chief Executive Officer of our Company.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Liu Ran (劉冉), aged 32, is our executive Director and vice president. Ms. Liu joined our Group in July 2011. Ms. Liu is responsible for overseeing the offline business department of our Company.

Ms. Liu received her bachelor's degree in tourism management from Sias International College of Zhengzhou University (currently known as Sias University) in the PRC in July 2010.

Ms. Liu is currently a director of Beijing Pop Mart, a principal subsidiary of our Company.

Mr. Si De (司德), aged 31, is our executive Director and chief operating officer. Mr. Si joined our Group in March 2015, and is responsible for overall operations and overseeing the online business department and the human resources department of our Company. Mr. Si joined our Group as the branding operation director and was promoted to vice president in July 2016.

Mr. Si received his bachelor's degree in French studies from China Communication University (中國傳媒大學) in the PRC in July 2011, and his master's degree in business administration from Guanghua School of Management of Peking University in the PRC in July 2017.

Mr. Si is currently a director of certain principal subsidiaries of our Company, including, Beijing Pop Mart, Shanghai Paqu Commerce Co., Ltd. (上海葩趣貿易有限公司), Tianjin Pop Mart Cultural Communication Co., Ltd. (天津泡泡瑪特文化傳播有限公司).

Non-executive Directors

Mr. Tu Zheng (屠錚), aged 42, is our non-executive Director. Mr. Tu joined our Group in September 2017, and is responsible for providing professional advice to the Board.

Mr. Tu has been serving as a partner of Shanghai Fengqiao Investment Management Co. Ltd.(上海蜂巧投資管理有限公司) since May 2018. He served as a partner at Shenzhen Qifu Capital Management Co., LTD (深圳市啟賦資本管理有限公司) from May 2015 to April 2018. From June 2007 to April 2015, Mr. Tu worked at Shenzhen Fortune Caizhi Venture Capital Management Co., Ltd. (深圳市達晨財智創業投資管理有限公司) where he served successively as an investment manager, an investment director, the general manager of Zhejiang branch office, the deputy general manager of East China and the head of TMT sector.

Mr. Tu received his bachelor's degree in English studies from Zhejiang University (浙江大學) in the PRC in June 2000, and his master's degree in public policy from the University of Chicago in the United States in June 2003. Mr. Tu currently holds the China Securities Investment Fund Practicing Certificate granted by the Asset Management Association of China (中國證券投資基金業協會) in August 2017.

Mr. Tu is currently a director of Beijing Pop Mart.

DIRECTORS AND SENIOR MANAGEMENT

Mr. He Yu (何愚), aged 39, is our non-executive Director. Mr. He joined our Group in April 2019, and is responsible for providing professional advice to the Board.

Mr. He founded and served as a partner of Shenzhen Qianhai Heiyi Innovation Investment Partnership (Limited Partnership) (深圳前海黑蟻創新投資合夥企業(有限合夥)) since February 2016. Prior to that, Mr. He served as the head of strategy and investment department at Beijing Bytedance Technology Co. Ltd. (北京字節跳動科技有限公司) from August 2015 to February 2016.

Mr. He received his bachelor's degree in international economics and trade from Nankai University (南開大學) in the PRC in June 2003, and his master's degree in finance from the University of Lancaster in the United Kingdom in November 2005. Mr. He was admitted as a Chartered Financial Analyst by the CFA Institute in September 2008, and was granted the China Securities Investment Fund Practicing Certificate by the Asset Management Association of China in February 2017.

Mr. He is currently a director of Beijing Pop Mart.

Independent Non-executive Directors

Mr. Zhang Jianjun (張建君), aged 53, is our independent non-executive Director with effect from the [REDACTED], and is responsible for providing independent opinion and judgment to the Board.

Mr. Zhang is currently a professor of organizational and strategic management at Guanghua School of Management of Peking University. Mr. Zhang's research focuses on corporate social responsibilities, corporate political activities, leaders and leadership teams and corporate culture, among other subjects. Mr. Zhang has been a faculty member at Guanghua School of Management of Peking University since March 2004. Mr. Zhang has accumulated in-depth understanding of corporate governance from his research over the past 15 years. His publication, *Marketization and Democracy in China*, has won the first prize of the 11th sociology studies achievement award of the Peking University in March 2011 and second prize of the 6th award for outstanding achievement of scientific research in colleges and universities issued by the Ministry of Education of the PRC. Mr. Zhang was also awarded the Li Yining Teaching Award in December 2014 and Li Yining Research Award in December 2018 by the Guanghua school of Management of Peking University. Mr. Zhang served as an independent director of CCB Life Insurance Company Limited from November 2014 to August 2017.

Mr. Zhang received his bachelor's and master's degrees in law from Peking University in the PRC in July 1989 and July 1992, respectively. Mr. Zhang received his Ph.D in sociology from the University of California, Berkeley in the United States in December 2003.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wu Liansheng (吳聯生), aged 49, is our independent non-executive Director with effect from the [REDACTED], and is responsible for providing independent opinion and judgement to the Board. Mr. Wu has been faculty member at Guanghua School of Management of Peking University since September 2001.

Mr. Wu had served directorships in certain listed companies. He served as an independent director of Huaneng Power International, Inc. (華能國際電力股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600011), the Hong Kong Stock Exchange (Stock Code: 902) and the New York Stock Exchange (Stock Code: HNP) from May 2008 to July 2014, an independent director of RiseSun Real Estate Development Co., Ltd. (榮盛房地產發展股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 002146) from January 2009 to January 2012, an independent director of Shenzhen Western Mining Co., Ltd. (西部礦業股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 601168) from February 2011 to September 2015, an independent director of Wanda Cinema Line Co. Ltd (萬達電影院線股份有限公司) (now known as Wanda Film Holding Co., Ltd (萬達電影股份有限公司)), a company listed on the Shenzhen Stock Exchange (Stock Code: 002739) from January 2011 to November 2015, an independent non-executive director of China National Building Material Company Limited (中國建材股份有限公司), a company listed on the Stock Exchange (Stock Code: 3323) from November 2011 to May 2016, and an independent director of Xinhuanet Co., Ltd (新華網股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 603888) from May 2014 to March 2016. Mr. Wu has served as an independent director of BOC International (China) Co., Ltd. (中銀國際證券股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 601696) since September 2018.

Mr. Wu received his bachelor's degree in economics from Wuhan University in the PRC in July 1993, his master's degree in economics from Wuhan University in the PRC in June 1996, and his Ph.D in management from Zhongnan University of Finance and Economics (中南財經大學) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) in the PRC in June 1999.

Mr. Ngan King Leung Gary (顏勁良), aged 37, is our independent non-executive Director with effect from the [REDACTED], and is responsible for providing independent opinion and judgement to the Board.

Mr. Ngan has served as the chief financial officer at Meitu, Inc., a company listed on the Hong Kong Stock Exchange (stock code: 1357) since June 2015. He was appointed as one of the joint company secretaries of Meitu, Inc. on August 2, 2016, and became the company secretary of Meitu, Inc. since December 15, 2019. Between May 2012 and June 2015, Mr. Ngan held the positions of chief operating officer, chief financial officer and joint company secretary at Forgame Holdings Limited, a company listed on the Stock Exchange (stock code: 484). Prior to that, he was the director and head of Hong Kong and China Internet research at UBS AG, where he worked from July 2006 to April 2012.

Mr. Ngan received his bachelor of science degree in economics from the Wharton School, University of Pennsylvania in the United States in 2006. He has been a CFA Charterholder since 2010.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The table below provides information about the members of the senior management of our Company:

Name	Age	Position	Roles and responsibilities	Date of joining our Group
Mr. Wang Ning (王寧)	33	Executive Director, Chairman of the Board and Chief Executive Officer	Responsible for the overall strategic planning and management	October 20, 2010
Mr. Yang Jingbing (楊鏡冰)	41	Chief Financial Officer	Responsible for the management of finance	August 1, 2017
Mr. Si De (司德)	31	Executive Director and Chief Operating Officer	Responsible for overall operations and overseeing the online business department and the human resources department	March 2, 2015
Ms. Yang Tao (楊濤)	33	Executive Director and Vice President	Responsible for overseeing the product department	October 20, 2010
Ms. Liu Ran (劉冉)	32	Executive Director and Vice President	Responsible for overseeing the offline business department	July 1, 2011
Mr. Moon Duk II (文德一)	41	Vice President	Responsible for overseeing the overseas business department	August 6, 2018

Mr. Wang Ning (王寧), aged 33, is our executive Director, Chairman of the Board and Chief Executive Officer of our Company. For details of his biography, please see the sub-section headed "— Executive Directors" in this section.

Mr. Yang Jingbing (楊鏡冰), aged 41, is the Chief Financial Officer of our Company. Mr. Yang joined our Group in August 2017, and is responsible for the management of finance of our Company.

Prior to joining our Group, Mr. Yang served successively as a manager of the finance and capital department, an assistant to the general manager and a chief financial officer of Beijing BBMG Dacheng Development Co., Ltd. (北京金隅大成開發有限公司) (now known as Beijing BBMG Property Development Group Co., Ltd. (北京金

DIRECTORS AND SENIOR MANAGEMENT

隅房地產開發集團有限公司)) from March 2010 to August 2017. He served as a manager of financial planning department Beijing Dacheng Development Co., Ltd. (北京大成開發有限公司) from March 2009 to March 2010. From September 2007 to March 2009, Mr. Yang served as a member of the finance section of the listing office of BBMG Corporation (北京金隅股份有限公司). Mr. Yang served as a staff of the finance department of Beijing GEM Real Estate Development Company (北京金隅嘉業房地產開發公司) from July 2002 to September 2007.

Mr. Yang received his bachelor's degree in law and management in June 2002 from Shanghai University of Finance and Economics in the PRC, and his master's degree in business administration in June 2016 from the Guanghua School of Management of Peking University in the PRC.

Mr. Si De (司德), aged 31, is our executive Director and Chief Operations Officer. For details of his biography, please see the sub-section headed "— Executive Directors" in this section.

Ms. Yang Tao (楊濤), aged 33, is our executive Director and vice president. For details of her biography, please see the sub-section headed "— Executive Directors" in this section.

Ms. Liu Ran (劉冉), aged 32, is our executive Director and vice president. For details of her biography, please see the sub-section headed "— Executive Directors" in this section.

Mr. Moon Duk II (文德一), aged 41, is our vice president. Mr. Moon joined our Group in August 2018, and is responsible for overseeing the overseas business department of our Company. Prior to that, Mr. Moon served successively as a global business planning specialist, global business planning senior specialist and global business planning junior manager at the business development department of CJ CheilJedang Corporation from July 2013 to July 2018, and a manager of the global strategy department of CJ ENM from January 2009 to May 2013. From December 2004 to December 2008, Mr. Moon served at the planning management department of Lotte Cinema Co., Ltd.

Mr. Moon received his bachelor's degree in Chinese from Konkuk University in Korea in February 2005, and his master's degree in business administration from Peking University in the PRC in July 2018.

Interests of our Directors and Senior Management

Save as disclosed above, none of our Directors holds any other directorships in public companies, the securities of which are [REDACTED] on any securities market in Hong Kong or overseas during the three years immediately preceding the date of this document. See section headed "Appendix IV — Statutory and General Information" in this document for further information about the Directors, including the particulars of their service contracts and remuneration, and details of the interests of the Directors in the Shares (within the meaning of Part XV of the SFO).

Save as disclosed above, to the best knowledge, information and belief of our Directors after having made all reasonable enquiries, as of the Latest Practicable

DIRECTORS AND SENIOR MANAGEMENT

Date, there were no other matters in respect of each of our Directors which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, and there were no other material matters relating to our Directors that need to be brought to the attention of our Shareholders.

None of our Directors have any interest in any business, other than our Group's business, which compete or is likely to compete, either directly or indirectly, with our Group's business.

JOINT COMPANY SECRETARIES

Mr. Li Hongxuan (李鴻軒), aged 29, was appointed as a joint company secretary of our Company on May 19, 2020. Mr. Li joined our Group in April 2019 and has been serving as a senior manager in charge of investor relationship. Prior to that, Mr. Li served as a senior associate of investment banking department of China Securities Co., Ltd. from December 2014 to January 2019 and a senior associate of innovative financing department of China Securities Co., Ltd. from February 2019 to March 2019.

Mr. Li received his bachelor's degree in commerce in September 2013 and his master's degree in finance in November 2014 from Macquarie University in Australia.

Ms. Li Ching Yi (李菁怡) was appointed as the other joint company secretary of our Company on May 19, 2020. Ms. Li is a manager of the Listing Corporate Services Department of Trident Corporate Services (Asia) Ltd., a global professional services firm. She has around 10 years of professional experience in company secretarial field. She is currently a joint company secretary of Sinco Pharmaceuticals Holdings Ltd., a company listed on the Hong Kong Stock Exchange (stock code: 6833). Ms. Li is an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and the Hong Kong Institute of Chartered Secretaries. She obtained a bachelor's degree in social sciences in October 2011 from Lingnan University in Hong Kong and a master degree in professional accounting and corporate governance in July 2015 from City University of Hong Kong in Hong Kong.

COMMITTEES UNDER THE BOARD OF DIRECTORS

Audit Committee

We [have] established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system (including risk management) of our Company, review and approve connected transactions and provide advice and comments to the Board. The Audit Committee consists of three members, namely Mr. Wu Liansheng, Mr. Ngan King Leung Gary and Mr. Tu Zheng, and both Mr. Ngan King Leung Gary and Mr. Wu Liansheng are our independent non-executive Directors. Mr. Wu Liansheng is the chairman of the Audit Committee. Mr. Ngan King Leung Gary, who has the appropriate professional qualifications or accounting or related financial management expertise, is a member of the Audit Committee.

DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

We [have] established a Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to review and make recommendations to the Board the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The Remuneration Committee consists of three members, namely Mr. Zhang Jianjun, Mr. Wu Liansheng and Mr. Wang. Mr. Zhang Jianjun is the chairman of the Remuneration Committee, and both Mr. Zhang Jianjun and Mr. Wu Liansheng are our independent non-executive Directors.

Nomination Committee

We [have] established a Nomination Committee with written terms of reference in compliance with the Corporate Governance Code in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment of Directors and management of Board succession. The Nomination Committee consists of three members, namely Mr. Wang, Mr. Zhang Jianjun and Mr. Wu Liansheng. Mr. Wang is the chairman of the Nomination Committee, and both Mr. Wu Liansheng and Mr. Zhang Jianjun are our independent non-executive Directors.

CORPORATE GOVERNANCE

Corporate Governance Code

We aim to achieve high standards of corporate governance which are crucial to our development and to safeguard the interests of our Shareholders. In order to accomplish this, save as disclosed below, we expect to comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules after the [REDACTED].

Pursuant to code provision A.2.1 of the Corporate Governance Code, companies [REDACTED] on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. We do not have a separate Chairman and Chief Executive Officer. Currently, Mr. Wang performs these two roles. Our Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. Our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Our Board will continue to review and consider splitting the roles of Chairman of our Board and the Chief Executive Officer of our Company at a time when it is appropriate by taking into account the circumstances of our Group as a whole.

Management Presence

According to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT

Since the principal business operations of our Company are conducted outside of Hong Kong, members of our senior management are, and are expected to continue to be, based outside of Hong Kong. Further, as our executive Directors have a vital role in our Company's operations, it is crucial for them to remain in close proximity to our Company's central management located outside of Hong Kong. Our Company does not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong. We have applied for, [and the Stock Exchange has granted,] a waiver from compliance with Rule 8.12 of the Listing Rules. For further details, please see the section headed "Waivers from Strict Compliance with the Listing Rules — Management Presence in Hong Kong."

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive remuneration, including salaries, allowances and benefits in kind, including our contribution to the pension plan on their behalf.

The aggregate amount of remuneration (including basic salaries, bonus, contributions relating to social insurance, housing fund and retirement scheme, and share-based payment expenses) for the five highest paid individuals for the years ended December 31, 2017, 2018 and 2019 was approximately RMB2.4 million, RMB4.0 million and RMB6.2 million, respectively.

The aggregate amount of remuneration (including basic salaries, bonus, contributions relating to social insurance, housing fund and retirement scheme, and share-based payment expenses) for our Directors for the years ended December 31, 2017, 2018 and 2019 was approximately RMB1.6 million, RMB2.6 million and RMB4.3 million, respectively. None of our Directors waived any remuneration during the aforesaid periods.

Save as disclosed, no other payments have been paid or are payable, in respect of the years ended December 31, 2017, 2018 and 2019 by our Company to our Directors or senior management.

See the section headed "Appendix IV — Statutory and General Information — [REDACTED] Share Award Scheme" for details regarding the incentive plan for, among other, Directors and senior management.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past directors for the Track Record Period for the loss of office as director or any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

BOARD DIVERSITY POLICY

In order to enhance the effectiveness of our Board and to maintain the high standard of corporate governance, we [have adopted] the board diversity policy which

DIRECTORS AND SENIOR MANAGEMENT

sets out the objective and approach to achieve and maintain diversity of our Board. Pursuant to the board diversity policy, we seek to achieve Board diversity through the consideration of a number of factors when selecting the candidates to our Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background, ethnicity and length of service. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to our Board.

Our Board currently consists of 2 female Directors and 7 male Directors with a balanced mix of knowledge and skills, including but not limited to overall management and strategic development, quality assurance and control, finance and accounting and corporate governance in addition to industry experience in pop toy. They obtained degrees in various majors including advertising, business administration, general study, communication studies, tourism management, French studies, English studies, public policy, international economics, finance, sociology, audit and accounting. The Board of Directors are of the view that our Board satisfies the board diversity policy.

Our nomination committee is responsible for ensuring the diversity of our Board members. After [REDACTED], our nomination committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our Compliance Adviser pursuant to Rule 3A.19 of the Listing Rules. The term of such appointment shall commence on the [REDACTED] and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [REDACTED].

Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will advise our Company, among others, in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) where we propose to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this Document or where our business activities, developments or results deviate from any forecast, estimate, or other information in this Document; and
- (d) where the Stock Exchange makes an inquiry to our Company regarding unusual movements in the price or trading volume of our [REDACTED] securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalization Issue, the [REDACTED] and assuming that the [REDACTED] is not exercised, the following persons will have interests or short positions in our Shares or our underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, 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 our Company or any other member of our Group:

Name of Shareholder	Capacity/Nature of interest	Number of Shares held as of the Latest Practicable Date	Approximate percentage of shareholding in our Company immediately before the Capitalization Issue and the [REDACTED]	Approximate percentage of shareholding in our Company immediately following the completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] is not exercised)
Mr. Wang ⁽¹⁾⁽³⁾	Beneficiary and founder of a trust; beneficial interest	68,800,922	56.33%	[REDACTED]%
UBS Trustees (B.V.I.) Ltd. ⁽¹⁾	Trustee	57,198,196	46.83%	[REDACTED]%
GWF Holding ⁽¹⁾	Beneficial interest	57,198,196	46.83%	[REDACTED]%
Ms. Yang Tao ⁽²⁾⁽³⁾	Beneficial interest; interest of spouse	68,800,922	56.33%	[REDACTED]%
Pop Mart Hehuo Holding Limited ⁽³⁾	Beneficial interest	8,594,504	7.04%	[REDACTED]%

SUBSTANTIAL SHAREHOLDERS

- (1) GWF Holding is a company with limited liability incorporated in the BVI and wholly-owned by UBS Trustees (B.V.I.) Ltd. as trustee for a trust established by Mr. Wang (as settlor) for the benefit of Mr. Wang. Mr. Wang is deemed to be interested in 57,198,196 Shares of our Company held by GWF Holding under the SFO. Tianjin Paqu Holding Limited is a company with limited liability incorporated under the laws of BVI and of which Mr. Wang is the sole shareholder. Mr. Wang is therefore deemed to be interested in the 3,008,222 Shares of our Company held by Tianjin Paqu Holding Limited under the SFO.
- (2) Ms. Yang Tao is the spouse of Mr. Wang and is therefore deemed to be interested in the Shares held by Mr. Wang.
- (3) Pop Mart Hehuo Holding Limited is a company with limited liability incorporated under the laws of BVI and holds 8,594,504 Shares in our Company. Mr. Wang and Ms. Yang Tao holds 43.2% and 15.1% of the issued share capital of Pop Mart Hehuo Holding Limited respectively. Both Mr. Wang and Ms. Yang Tao are deemed to be interested in the Shares held by each other due to their spousal relationship and are therefore deemed to have an interest in the Shares held by Pop Mart Hehuo Holding Limited.

Save as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the [REDACTED], have any interest and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company or any other member of our Group.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Capitalization Issue and the [REDACTED]:

	Number of Shares of US\$0.0001 par value	Aggregate nominal value of Shares
Authorized share capital	5,000,000,000	US\$500,000
Shares in issue immediately before the [REDACTED] (assuming all Preferred Shares are converted into ordinary Shares on a 1:1 basis)	122,143,642	US\$12,214.3642
Shares to be issued as part of the Capitalization Issue	1,099,292,778	US\$109,929
Shares to be issued under the [REDACTED]	[REDACTED]	US\$[REDACTED]
Shares in issue immediately following the [REDACTED]	[REDACTED]	US\$[REDACTED]

Assumptions

The above table assumes that the [REDACTED] becomes unconditional and Shares are issued pursuant to the Capitalization Issue and the [REDACTED]. The above table also do not take into account any Shares which may be issued or repurchased by us under the general mandates granted to our Directors as referred to below.

Ranking

The [REDACTED] will rank *pari passu* in all respects with all Shares currently in issue or to be issued (including all Preferred Shares automatically converted into Shares upon [REDACTED]) as mentioned in this Document, and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Shares on a record date which falls after the date of this Document.

CAPITALIZATION ISSUE

Pursuant to the written resolutions of our Shareholders passed on [REDACTED], and subject to the share premium account of our Company being credited as a result of the issue of [REDACTED] pursuant to the [REDACTED], our Directors are authorized to allot and issue a total of 1,099,292,778 Shares credited as fully paid at par on [REDACTED] to the holders of Shares and Preferred Shares on the register of members of our Company in the Cayman Islands at the close of business on the business day preceding the [REDACTED], in proportion to their existing respective

SHARE CAPITAL

shareholdings (save that no holder of Shares and Preferred Shares shall be entitled to be allotted or issued any fraction of a Share) by way of the capitalization of the sum of US\$109,929 standing to the credit of the share premium account of our Company. The Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares.

POTENTIAL CHANGES TO SHARE CAPITAL

Circumstances under which general meetings are required

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (i) increase its share capital; (ii) consolidate and divide its share capital into shares of larger amount than its existing share capital; (iii) subdivide its shares into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Cayman Companies Law; and (iv) cancel any shares which have not been taken or agreed to be taken by any person. In addition, our Company may, subject to the provisions of the Cayman Companies Law, reduce its share capital or capital redemption reserve by its Shareholders passing a special resolution. See the section headed "Appendix III — Summary of the Constitution of Our Company and Cayman Companies Law — Summary of the Constitution of our Company — Articles of Association — Alteration of capital" of this Document for further details.

General mandate to issue Shares

Subject to the [REDACTED] becoming unconditional, our Directors [have] been granted a general unconditional mandate to allot, issue and deal with [REDACTED] with a total nominal value of not more than the sum of:

- 20% of the aggregate nominal value of the Shares in issue immediately following completion of the Capitalization Issue and the [REDACTED]; and
- the aggregate nominal value of Shares repurchased by us under the authority referred to in the paragraph headed "General mandate to repurchase Shares" in this section.

This general mandate to issue Shares will expire at the earlier of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

See the section headed "Appendix IV — Statutory and General Information — 3. Resolutions of our Shareholders" of this Document for further details of this general mandate to allot, issue and deal with [REDACTED].

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General mandate to repurchase Shares

Subject to the [REDACTED] becoming unconditional, our Directors [have] been granted a general unconditional mandate to exercise all the powers of our Company to repurchase our own securities with nominal value of up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Capitalization Issue and the [REDACTED].

The repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our [REDACTED] are [REDACTED] (and which are recognized by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Appendix IV — Statutory and General Information — Further Information about our Group — Repurchases of our Own Securities" of this Document.

This general mandate to repurchase Shares will expire at the earlier of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

See the section headed "Appendix IV — Statutory and General Information — Further Information about our Group — Resolutions of our Shareholders" of this Document for further details of this general mandate to repurchase Shares.

Share Incentive Scheme

We adopted the [REDACTED] Share Award Scheme on [REDACTED]. See the section headed "Appendix IV — Statutory and General Information — D. [REDACTED] Share Award Scheme" in this Document for further details.

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You should read the following discussion and analysis with our consolidated financial information, including the notes thereto, included in the Accountant's Report in Appendix I to this Document. Our consolidated financial information has been prepared in accordance with IFRS, which may differ in material aspects from GAAP in other jurisdictions, including the United States.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties, many of which we cannot control or foresee. In evaluating our business, you should carefully consider all of the information provided in this Document, including the sections headed "Risk Factors" and "Business."

For the purpose of this section, unless the context otherwise requires, references to 2017, 2018 and 2019 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are the largest and fastest-growing pop toy company in China, in terms of revenue in 2019 and revenue growth from 2017 to 2019, respectively, according to the Frost & Sullivan Report. IP is at the core of our business. We have established an integrated platform covering the entire industry chain of pop toys, including artists development, IP operation, consumer access and pop toy culture promotion, through which we light up the passion of fans and bring them joy.

As a pioneer and key promoter of pop toy culture in China, we have inspired people's passion for pop culture and pop toy, and led the rapid development and large-scale commercialization of pop toys in China. According to the Frost & Sullivan Report, "Pop Mart" has become the most popular pop toy brand in China. Leveraging our industry influence and resources, we have launched and hosted the largest pop toy convention in China in terms of visits according to the Frost & Sullivan Report. Through our membership program, online pop toy community, and various pop toy culture events hosted by us, we have formed a large and engaging fan community.

We have established a comprehensive and extensive sales and distribution network to reach our consumers. As of December 31, 2019, our sales and distribution network consisted of (i) 114 retail stores in 33 cities in China, primarily located at major commercial districts in first-tier and second-tier cities; (ii) 825 innovative roboshops in 57 cities which help us expand our consumer access and provide engaging and playful shopping experiences for our fans; (iii) fast-growing online channels, including our Tmall flagship store, Pop Draw, Paqu and other mainstream e-commerce platforms in China; (iv) our BTS and STS conventions; and (v) wholesale

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channels, primarily consist of 22 distributors in China and 19 distributors in 21 overseas countries and regions such as Korea, Japan, Singapore and the United States.

Leveraging our integrated platform covering the entire industry chain of pop toys, our business achieved rapid growth during the Track Record Period. Our total revenue increased by 225.4% from RMB158.1 million in 2017 to RMB514.5 million in 2018, and further increased by 227.2% to RMB1,683.4 million in 2019. We recorded net profit of RMB1.6 million, RMB99.5 million and RMB451.1 million in 2017, 2018 and 2019, respectively.

BASIS OF PREPARATION

The historical financial information of our Company has been prepared in accordance with applicable International Financial Reporting Standards ("**IFRS**"), issued by the International Accounting Standard Board. The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The International Accounting Standard Board has issued a number of new and revised IFRS during the Track Record Period. For the purpose of preparing the historical financial information, our Group has adopted all applicable new and revised IFRSs including IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases throughout the Track Record Period except for any new standards or interpretation that are not yet effective during the Track Record Period.

The preparation of the historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in Note 4 to the Accountant's Report included in Appendix I to this document.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, many of which are outside of our control, including the following:

Prevalence and Acceptance of Pop Toy Culture in China

Our results of operations and prospects will be impacted by prevalence and acceptance of pop toy culture in China. In recent years, pop toy culture in China has

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experienced greater cultural prevalence and acceptance, which have resulted in increased and more engaging fan base for pop toy and increased sales of pop toy products. These trends have contributed to significant growth in the demands for pop toy products like ours in recent years. Any shifts in consumer demand for pop toy products and pop toy culture trends may affect our results of operations and prospects significantly.

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. Demand for consumer goods was significantly affected. According to the National Bureau of Statistics, China's total retail sales of consumer goods decreased by 19.0% in the first quarter of 2020 compared with the same period of 2019. Such negative impact on consumer demand in China has adversely affected our business. As of the Latest Practicable Date, we and our major business partners have resumed normal operations. Our Directors are of the view that such negative impact on our business is only temporary and short-term, which would not have a material adverse effect on our long-term business operations. For further details, see "— Recent Development — COVID-19 Outbreak and Effects on Our Business."

Development and Success of Our Products

We have experienced rapid revenue growth during the Track Record Period as a result of the success of our pop toy products. To maintain our growth momentum, we must continue to innovate and develop high-quality and popular pop toy products.

High quality IP is pivotal to the success of our pop toy products. To this regard, we plan to constantly develop high quality IPs, including to expand our propriety IPs. We have maintained strong licensing relationships with our artists and IP providers, and seek to establish licensing relationships with new artists and IP providers to further expand our IP pool. Our ability to effectively control content cost, especially by enhancing our bargaining power with popular artists and IP providers, expanding our in-house creative design team and our investments in IP acquisition, may affect our profitability.

We continuously create original, unique and entertaining pop toy products based on our IPs. As of the Latest Practicable Date, we operated 85 IPs, including 12 proprietary IPs, 22 exclusively licensed IPs and 51 non-exclusively licensed IPs. We expect to operate more than 30 new IPs in 2020. Our results of operations may fluctuate from quarter to quarter or year to year depending on the timing and popularity of new product releases. Sales of our blockbuster IP products can significantly increase our revenue in any given quarter or year. If one or more of these products fail to meet the sales expectations or are delayed in their release, our operating results could be adversely affected. Our revenue is also affected by the number of product series for each IP, which is largely dependent on the popularity of such IP. Our ability to continuously develop and launch more product series plays a significant role in our revenue growth.

Our Fan Base and Fan Engagement

The influence and value of our brand and platform is affected by the size of our fan base and the level of their engagement. Our high-quality IPs and our artistic and

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collectible pop toy products have allowed us to build a fast-growing and passionate fan base, which has experienced rapid growth during the Track Record Period and up to the Latest Practicable Date. As of December 31, 2017, 2018 and 2019 and the Latest Practicable Date, we had 0.3 million, 0.7 million, 2.2 million and 3.2 million registered members, respectively. In 2019, the overall repeat purchase rate for our registered members was 58%. Expanding and engaging fan base is a key driver of our revenue growth, which also helps us to attract top artists and IP providers.

Leveraging our significant brand appeal among pop toy fans, we are well-positioned to further expand our fan base. We intend to continue to attract more fans and enhance their level of engagement by improving and expanding our IP pool, diversifying our pop toy product offerings, exploring geographic expansion, optimizing our membership program and strengthening our marketing efforts.

Our Sales and Distribution Network

We primarily sell our products through a comprehensive and extensive sales and distribution network consisting of retail stores, roboshops, online channels, conventions and wholesale channels, including our distributors across China and overseas.

- As of December 31, 2017, 2018 and 2019, we had 32, 63 and 114 retail stores, respectively, and our revenue generated from retail stores amounted to RMB101.0 million in 2017, RMB248.3 million in 2018 and RMB739.7 million in 2019.
- As of December 31, 2017, 2018 and 2019, we had 43, 260 and 825 roboshops, respectively, and our revenue generated from roboshops amounted to RMB5.6 million in 2017, RMB86.4 million in 2018 and RMB248.6 million in 2019. Our online channels include Tmall flagship store, Pop Draw, Paqu and other mainstream e-commerce platforms in China, and our revenue generated from online channels amounted to RMB14.9 million in 2017, RMB102.9 million in 2018 and RMB539.2 million in 2019.
- At our pop toy conventions, audiences can purchase pop toy products from both us and third party pop toy brand owners. In 2017, 2018 and 2019, our revenue generated from pop toy conventions amounted to RMB6.8 million, RMB25.6 million and RMB45.5 million, respectively.
- We leverage our distributors' better understanding of local markets and established local resources to expand our global presence. Our distributors sell our products to local toy stores and department stores, thereby expanding our consumer reach. As of December 31, 2019, we had 22 distributors in China and 19 distributors in 21 overseas countries and regions such as Korea, Japan, Singapore and the United States. In 2017, 2018 and 2019, our revenue generated from distributors amounted to RMB27.7 million, RMB44.9 million and RMB93.6 million, respectively.

We have been expanding our sales and distribution network and have achieved robust revenue growth during the Track Record Period. Our future growth will depend on our ability to expand our self-operated retail network, online sales channels as well as our distribution channels.

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Our Ability to Strengthen Monetization Capabilities and Further Diversify Our Monetization Channels

Our revenue and results of operations are affected by our capabilities to monetize our IPs. We continuously create original, unique and entertaining pop toy products based on our pool of IPs. We endeavor to constantly reinforce our monetization capabilities. We collaborate with renowned players in various industries to explore additional monetization opportunities through IP licensing, which is an important part of our future strategy and monetization efforts. Our license income has experienced significant growth during the Track Record Period. Our IP licensing business is affected by a variety of factors such as the popularity of our IPs, our bargaining power, and the IP licensing model.

Our Ability to Effectively Control Our Costs and Expenses

Our ability to manage and control our costs and expenses is critical to the success of our business. Cost of sales and distribution and selling expenses historically represent a significant majority of our total cost and expenses. Our cost of sales amounted to RMB82.8 million, RMB216.5 million and RMB593.1 million in 2017, 2018 and 2019, respectively, representing 52.4%, 42.1% and 35.2% of our revenue in the same periods, respectively. Our distribution and selling expenses amounted to RMB51.0 million, RMB125.7 million and RMB348.5 million in 2017, 2018 and 2019, respectively, representing 32.3%, 24.4% and 20.7% of our revenue in the same periods, respectively. We expect our costs and expenses to increase in absolute amount as we grow our business while decreasing as a percentage of our revenue as we continue to enhance brand recognition, improve operational efficiency and achieve economies of scale.

Seasonality

Our financial condition and results of operations are subject to seasonal fluctuations. We typically experience higher sales of our pop toy products in the second half of each year, particularly during holiday seasons and major promotion periods such as Tmall Singles Day. Accordingly, we usually launch more product series in the second half of each year to meet the diversified demands from our customers and attract new customers. As a result, we typically have higher levels of inventories to satisfy our increased sales during such holiday seasons and promotion periods.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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. Our management continually evaluates such estimates, assumptions and judgments based on past experiences and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our

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management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Set forth below are discussions of the accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Other significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in Notes 2 and 4 to the Accountant's Report in Appendix I to this document.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivables for goods supplied or serviced provided, stated net of discounts and the relevant business taxes or value added taxes.

Sale of goods – retail store sales and roboshop sales

We operate a chain of retail stores and roboshops for selling pop toys. Revenue from sales of goods are recognized when the control of the product has transferred to the customer. There was no right of return for the sales to the end customer. Retail sales are usually settled in cash, by credit/debit cards or through online payment platforms.

Despite that a majority of roboshops are directly operated by us, certain roboshops are operated by third-party roboshop partners where we grant roboshop partners the right to operate roboshops for selling pop toys for a period of two years. Roboshop partner acts as an agent of us rather than the principal in the transaction since roboshop partner is not primarily responsible for fulfilling the promise to provide the pop toys to the customers, does not take inventory risk and has no pricing latitude. Hence roboshop partners do not obtain the control of goods before they are transferred to the customer. Revenue is recognized when control of the products has transferred to the customer, and the commissions to roboshop partners is charged to distribution and selling expenses.

Sale of goods – online sales

Pop toys are also sold through self-operated online platform or other third-party e-commerce platform and revenue is recognized when the control of the products has been transferred to the customer, which is the point of acceptance by the customers. Revenue from these sales are recognized based on the price, net of the estimated sales discounts at the time of sale. Transactions are settled in cash, by credit/debit cards or through online payment platforms. The commissions to the third party e-commerce platform is an incremental cost to obtaining a contract. We apply the practical expedient to expense the commissions as incurred as the expected amortization period is one year or less.

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Sale of goods — customer loyalty program

We operate a loyalty program where retail and online customers accumulate points for purchases made which entitle them to discounts on future purchases. A contract liability for the award points is recognized at the time of the sale. Revenue from the award points is recognized when the points are redeemed or when they expire at the end of the year during which the initial sale occurs.

A contract liability is recognized until the points are redeemed or expire.

Sales of goods — wholesale

Revenue are recognized when control of the products has transferred, being when products are delivered to the wholesale customer, the wholesale customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesale customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesale customer, and either the wholesale customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or we have objective evidence that all criteria for acceptance have been satisfied.

As receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Revenue from conventions

We hold conventions that enable we and third party brand owners to sell pop toys to the customers. Revenue from holding conventions includes selling convention tickets, commission income and sales of our products. For tickets sold, revenue is recognized in the accounting period in which the services are rendered. For commission income, revenue is recognized upon sales of goods by the relevant brand owners. For sales of goods, revenue is recognized when the control of the products has transferred to the customer, see Note 2.22(a) to the Accountant's Report included in Appendix I to this Document.

License fee income

We license IPs for use to third parties on relevant products for a period. The income is recognized on a pro rata basis in the contractual period.

Leases

We lease various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of two to five years.

As indicated in Note 2.1 to the Accountant's Report included in Appendix I to this Document, we have adopted IFRS 16 Leases from January 1, 2017 and throughout the Track Record Period.

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On adoption of IFRS 16, we recognized lease liabilities in relation to leases which were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate ranging from 4.75% to 4.95% on January 1, 2017 and throughout the Track Record Period.

In applying IFRS 16 for the first time, we have used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at January 1, 2017;
- accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2017 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and;
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The accounting policies are disclosed below:

Contracts may contain both lease and non-lease components. We allocate the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which we are a lessee, we have elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by us under residual value guarantees

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- the exercise price of a purchase option if we are reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects us exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for our leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, we use a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by us.

We are exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If we are reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets mainly include automatic vending machines which is less than RMB35,000.

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Variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a store. For certain stores including fixed and variable rental payment terms, the lease payments are on the basis of variable payment terms with percentages ranging from 9% to 18% of sales. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

Modification of lease

A lease liability is remeasured upon a change in the lease term, changes in an index or rate used to determine the lease payments or reassessment of exercise of a purchase option. The corresponding adjustment is made to the related right-of-use assets.

Share-based payments

Share-based compensation benefits will be provided to employees via the [REDACTED] Share Award Scheme. Information relating to the schemes is set out in Note 27 to the Accountant's Report included in Appendix I to this Document. The fair value of the services received in exchange for the grant of the restricted shares is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the restricted shares granted as at grant date, including any market performance conditions, excluding the impacts of any service and non-market performance vesting conditions as well as including any non-vesting conditions, when applicable. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, we revise our estimates of the number of shares that are expected to vest based on the non-market vesting conditions. We recognize the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the shares are exercised.

Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of licenses of character images and intellectual property rights

We have licenses of character images and intellectual property rights that are primarily used to design and sell pop toys. We estimate the useful life of these licenses of character images and intellectual property rights to be two to ten years based on the contract and expected economic benefit. However, the actual useful life may be shorter or longer than management's estimate, depending on the market competition. Periodic review could result in a change in useful lives and therefore amortisation expense in future periods.

Useful lives of moulds

We have moulds that are used to produce pop toys. We estimate the useful life of these moulds to be three to five years based on historical experience and expected economic benefit. However, the actual useful life may be shorter or longer than our management's estimate. Periodic review could result in a change in useful lives and therefore depreciation expense in future periods.

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SUMMARY OF FINANCIAL RESULTS

The following table sets forth our consolidated statements of comprehensive income with line items in absolute amounts and as percentages of our revenue for the periods indicated:

	Years ended December 31,					
	2017		2018		2019	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>					
Revenue	158,074	100.0	514,511	100.0	1,683,434	100.0
Cost of sales	(82,820)	(52.4)	(216,486)	(42.1)	(593,100)	(35.2)
Gross profit	75,254	47.6	298,025	57.9	1,090,334	64.8
Distribution and selling expenses	(51,047)	(32.3)	(125,721)	(24.4)	(348,533)	(20.7)
General and administrative expenses	(20,897)	(13.2)	(43,599)	(8.5)	(157,754)	(9.4)
Net impairment losses on financial assets	(344)	(0.2)	(270)	(0.1)	(3,086)	(0.2)
Other income	1,362	0.9	5,484	1.1	17,013	1.0
Other (losses)/gains, net	51	0.0	(305)	(0.1)	820	0.0
Operating profit	4,379	2.8	133,614	26.0	598,794	35.6
Finance income	9	0.0	142	0.0	424	0.0
Finance expenses	(1,764)	(1.1)	(2,455)	(0.5)	(5,813)	(0.3)
Finance (expenses)/income, net	(1,755)	(1.1)	(2,313)	(0.4)	(5,389)	(0.3)
Share of profit/(loss) of joint ventures for using the equity method	(351)	(0.2)	959	0.2	4,970	0.3
Profit before income tax	2,273	1.4	132,260	25.7	598,375	35.5
Income tax expense	(704)	(0.4)	(32,739)	(6.4)	(147,257)	(8.7)
Profit for the year	1,569	1.0	99,521	19.3	451,118	26.8
Other comprehensive income	–	–	–	–	903	0.1
Total comprehensive income for the period/year	1,569	1.0	99,521	19.3	452,021	26.9

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NON-IFRS MEASURES

To supplement our financial information which are presented in accordance with IFRS, we use adjusted net profit as an additional financial measure, which is not required by, or presented in accordance with IFRS. We believe that this non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance. We believe that this measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted net profit may not be comparable to a similarly titled financial measure presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

We define adjusted net profit as profit for the year adjusted for share-based payments compensation and [REDACTED] expenses. The following table sets out adjusted net profit, and a reconciliation from profit for the year to adjusted net profit for the periods indicated.

	Year ended December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Reconciliation of profit for the year to adjusted net profit			
Profit for the year	1,569	99,521	451,118
Adjusted for:			
Share-based payments compensation	102	782	1,467
[REDACTED] expenses	–	–	16,351
Adjusted net profit	1,671	100,303	468,936

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

Our revenue represents the amounts receivables for goods supplied, net of discount and relevant business taxes and value-added taxes. In 2017, 2018 and 2019, our revenue was RMB158.1 million, RMB514.5 million and RMB1,683.4 million, respectively.

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Revenue by Product Categories

We generate revenue primarily from the sales of (i) self-developed pop toy products and (ii) third-party products, mainly lifestyle consumer products such as toys, puzzles, electronics, and accessories. Based on our IPs, we have developed a broad array of pop toy products, including blind boxes, action figures, BJDs and accessories. Others primarily represent revenue generated from (i) commissions charged on the gross sale proceeds of third-party products which we do not assume inventory risk on conventions; (ii) booth fees charged from artists and pop toy brands on conventions; and (iii) sale of tickets for conventions. The following table sets forth our revenue breakdown by product category for the periods indicated:

	Years ended December 31,					
	2017		2018		2019	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>					
Proprietary IPs						
Molly	41,019	25.9	213,893	41.6	456,018	27.1
Dimoo	–	–	–	–	100,085	5.9
BOBO&COCO	–	–	–	–	25,454	1.5
Yuki	–	–	746	0.1	23,076	1.4
Others	2	0.0	1,074	0.2	22,394	1.3
Subtotal	41,021	25.9	215,714	41.9	627,027	37.2
Exclusive licensed IPs						
PUCKY	–	–	75,075	14.6	315,318	18.7
The Monsters	–	–	–	–	107,846	6.4
SATYR RORY	–	–	6,893	1.3	63,086	3.7
Others	4,843	3.1	24,254	4.7	111,112	6.6
Subtotal	4,843	3.1	106,222	20.6	597,362	35.4
Non-exclusive licensed IPs	–	–	18,213	3.5	159,820	9.5
Total self-developed products	45,864	29.0	340,149	66.0	1,384,209	82.1
Third-party products	110,262	69.8	162,277	31.5	279,986	16.6
Others	1,948	1.2	12,085	2.5	19,239	1.3
Total	158,074	100.0	514,511	100.0	1,683,434	100.0

For the purpose of presenting the breakdown of revenue from self-developed products by IP categories during the Track Record Period, the categorization of an IP is based on its status as of the Latest Practicable Date.

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During the Track Record Period, our revenue generated from self-developed products accounted for an increasing portion of our revenue which was in line with our business strategies to focus on self-developed products and streamline third-party products.

Revenue by Sales Channels

Our sales and distribution network consist of (i) retail stores, (ii) online channels, (iii) roboshops, (iv) wholesale channels, including distributors and bulk purchase corporate customers, and (v) conventions. For details, see "Business — Sales and Distribution Channels." The following table sets forth our revenue contribution by each of our sales channels for the periods indicated:

	Years ended December 31,					
	2017		2018		2019	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except for percentages)</i>					
Retail stores ⁽¹⁾	101,005	63.9	248,257	48.3	739,690	43.9
Online channels	14,854	9.4	102,886	20.0	539,201	32.0
Roboshops	5,568	3.5	86,431	16.8	248,554	14.8
Wholesale	29,884	18.9	51,329	9.9	110,467	6.6
– Distributors	27,759	17.6	44,972	8.7	93,601	5.6
– Bulk purchase	2,125	1.3	6,357	1.2	16,866	1.0
Conventions	6,763	4.3	25,608	5.0	45,522	2.7
Total	158,074	100.0	514,511	100.0	1,683,434	100.0

(1) Including sales from short-term pop-up stores

Revenue from Retail Stores

Retail stores are our primary sales channel which provides the richest selection of products to meet the needs of different customers. The growth of our revenue generated from retail stores during the Track Record Period was primarily driven by (i) the continuous expansion of our retail store network, and (ii) the same store sales growth mainly driven by (a) the rising awareness and popularity of our brand and products, (b) the increase in our product portfolio and (c) the improved design and quality of our products. The decrease in our revenue generated from retail stores as a percentage of our total revenue during the Track Record Period was primarily due to our efforts to diversify our sales channels, primarily including roboshops and online channels.

Revenue from Online Channels

Our online channels include our Tmall flagship store, Pop Draw, Paqu and other mainstream e-commerce platforms in China. The significant increase of our revenue generated from online channels in both absolute amount and as a percentage of our total revenue was primarily driven by (i) the increase of our customers through these

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online channels; and (ii) the rising awareness and popularity of our brand and products as a result of our online marketing efforts.

Revenue from Roboshops

Our innovative cashier-less roboshops enable us to expand our customer reach and provide engaging and playful shopping experiences. We primarily sell blind box products in our eye-catching, bright and distinctively-designed roboshops.

Our revenue generated from roboshops experienced rapid growth in absolute amount since its launch in 2017, which was primarily driven by the significant increase in both the number of our roboshops and the locations covered.

Revenue from Wholesale Channels

Our revenue generated from wholesale channels consist of revenue generated from distributors and, to a lesser extent, revenue generated from bulk purchase corporate customers. We leverage our distributors' better understanding of local markets and established local resources to expand our global presence. Our distributors in China and overseas sell our products to local toy stores and department stores, expanding our customer reach. The increase of our revenue generated from distributors was primarily driven by the expansion of our major distributors' distribution network, such as Nanjing Golden Eagle Pop Mart. The decrease of our revenue generated from distributors as a percentage of our total revenue was primarily because we strategically shifted our efforts from the development of domestic distribution channels to other self-operated sales channels.

To a lesser extent, some corporate customers directly order a large amount of our products as gifts for employees or souvenirs for activities. The increase of our revenue generated from such bulk purchase was primarily driven by the rising awareness and popularity of our brand and products.

Revenue from Conventions

Our revenue from conventions comprises (i) sales of our products and pre-purchased third-party products for which we take inventory risk; (ii) commissions charged on the gross sale proceeds of third-party products which we do not assume inventory risk; (iii) booth fees charged from artists and pop toy brands; and (iv) sale of tickets. The increase of our revenue generated from conventions in absolute amount was primarily driven by the increased scale of our conventions, which attracted more artists, pop toy brands and audiences.

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Cost of Sales

The following table sets forth the major components of our cost of sales in absolute amounts and as percentage of total cost of sales for the period indicated:

	Years ended December 31,					
	2017		2018		2019	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>					
Cost of goods	75,571	91.2	178,336	82.4	488,035	82.3
Others	7,249	8.8	38,150	17.6	105,065	17.7
Total	82,820	100.0	216,486	100.0	593,100	100.0

Costs of goods primarily consist of cost of goods to third-party manufacturers for our self-developed products and procurement costs for third-party products. Other costs primarily consist of design and licensing fees paid to our artists and IP providers, taxes and surcharges, depreciation and amortization costs, repairing and decoration expenses for our conventions, among others.

Our cost of sales amounted to RMB82.8 million, RMB216.5 million and RMB593.1 million in 2017, 2018 and 2019, respectively, accounting for approximately 52.4%, 42.1% and 35.2% of the total revenue in the same period, respectively. The significant increase in cost of sales during the Track Record Period reflected the significant growth of our business.

Gross Profit

Our gross profit was RMB75.3 million, RMB298.0 million and RMB1,090.3 million in 2017, 2018 and 2019, respectively. Our gross profit margin was 47.6%, 57.9% and 64.8% in the same periods, respectively.

Distribution and Selling Expenses

Our distribution and selling expenses primarily include (i) employee benefit expenses, (ii) expenses relating to short-term and variable leases, (iii) depreciation and amortization, (iv) advertising and marketing expenses, (v) e-commerce platform charges, (vi) transportation and logistic expenses, (vii) commissions to roboshop partners, and (viii) others, such as daily operating expenses and travel and entertainment expenses.

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Employee benefit expenses primarily consist of wages, social security costs, housing benefits and share-based compensation expenses for our sales and marketing personnel. Depreciation and amortization and expenses relating to short-term and variable leases primarily relate to our retail stores. Advertising and marketing expenses include costs of placing advertisements, holding promotional events and developing and designing marketing activities to enhance brand recognition and promote products. Transportation and logistics expenses primarily represent fees for delivery services of our products. E-commerce platform service charges represent the commissions and service fees charged by our online channels. Commissions to roboshop partners represent commission service fees paid to our roboshop partners who are responsible for the stocking, location rental and maintenance works. The table below sets forth a breakdown of the components of our distribution and selling expenses in absolute amounts and as percentages of total distribution and selling expenses for the periods indicated:

	Years ended December 31,					
	2017		2018		2019	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except for percentages)</i>					
Employee benefit expenses	16,854	33.0	38,154	30.3	79,270	22.7
Depreciation and amortization	19,768	38.7	30,244	24.1	76,447	21.9
Expenses relating to short-term and variable leases	7,589	14.9	17,840	14.2	51,774	14.9
Advertising and marketing expenses	2,594	5.1	10,697	8.5	46,810	13.4
Transportation and logistics expenses	941	1.8	5,314	4.2	32,878	9.4
E-commerce platform service charges	833	1.6	6,269	5.0	23,226	6.7
Commissions to roboshop partners	54	0.1	7,989	6.4	19,116	5.5
Others	2,414	4.8	9,214	7.3	19,012	5.5
Total	51,047	100.0	125,721	100.0	348,533	100.0

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General and Administrative Expenses

Our general and administrative expenses primarily include (i) employee benefit expenses, (ii) depreciation and amortization, (iii) [REDACTED] expenses, and (iv) others, such as daily operating expenses, travel and entertainment expenses, taxes and surcharges and transportation and logistics expenses.

Employee benefit expenses primarily consist of wages, social security costs, housing benefits and share-based compensation expenses for our general and administrative personnel. Depreciation and amortization primarily relate to our office space. [REDACTED] expenses primarily comprise fees in connection with the [REDACTED]. The table below sets forth a breakdown of the components of our administrative expenses in absolute amounts and as percentages of total general and administrative expenses for the periods indicated:

	Years ended December 31,					
	2017		2018		2019	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except for percentages)</i>					
Employee benefit expenses	10,475	50.1	24,882	57.1	76,216	48.3
Depreciation and amortization	2,730	13.1	6,675	15.3	19,028	12.1
[REDACTED] expenses	–	–	–	–	16,351	10.4
Others	7,692	36.8	12,042	27.6	46,159	29.2
Total	20,897	100.0	43,599	100.0	157,754	100.0

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets primarily comprised impairment losses on trade and other receivables, amounting to RMB0.3 million, RMB0.3 million and RMB3.1 million in 2017, 2018 and 2019, respectively.

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Other Income

Our other income primarily includes (i) license income, (ii) government grants and (iii) others, which primarily consist of investment income from wealth management products. We generate license income by licensing our IPs to our partners. The following table sets forth our other income in absolute amounts and as percentages of our total other income for the periods indicated:

	Years ended December 31,					
	2017		2018		2019	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except for percentages)</i>					
License income	745	54.7	2,874	52.5	12,103	71.1
Government grants	17	1.2	2,218	40.4	4,417	26.0
Others	600	44.1	392	7.1	493	2.9
Total	1,362	100.0	5,484	100.0	17,013	100.0

Other (Losses)/Gains, Net

We recorded other gains of RMB0.05 million in 2017 and RMB0.8 million in 2019. We recorded other losses of RMB0.3 million in 2018.

Operating Profit

Our operating profit was RMB4.4 million, RMB133.6 million and RMB598.8 million in 2017, 2018 and 2019, respectively. Our operating profit margin was 2.8%, 26.0% and 35.6% in the same periods, respectively.

Share of Profit/(Loss) of Joint Venture

We recorded share of profit/(loss) of joint venture primarily in relation to Nanjing Golden Eagle Pop Mart. We recorded share of loss of joint venture of RMB0.4 million, in 2017, and share of profit of joint ventures of RMB1.0 million and RMB5.0 million in 2018 and 2019, respectively.

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Finance (Expenses)/Income, Net

Finance income primarily comprises interest income on bank deposits and finance expenses primarily comprises interest expenses in relation of our lease liability. In 2017, 2018 and 2019, we recorded net finance expenses amounted to RMB1.8 million, RMB2.3 million and RMB5.4 million, respectively.

TAXATION

Cayman Islands

We are incorporated in the Cayman Islands as a company with limited liability under the Cayman Companies Law and accordingly, is not subject to income tax in the Cayman Islands.

Hong Kong

Hong Kong profits tax rate is 8.25% for the first HK\$2 million of profits and 16.5% for profits above HK\$2 million in 2017, 2018 and 2019. The profits of our entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during the years ended December 31, 2017 and 2018.

PRC

Our subsidiaries in China are subject to Enterprise Income Tax ("EIT") on the taxable income as reported in their respective statutory financial statements adjusted in accordance with the Enterprise Income Tax Law ("EIT Law"). Our subsidiaries in China are generally subject to EIT at the statutory rate of 25% pursuant to the EIT Law. Fifteen of our subsidiaries were qualified as small profit enterprises which is entitled to enjoy a preferential EIT rate of 5% or 10%, as applicable, during the Track Record Period.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2019 Compared with the Year Ended December 31, 2018

Revenue

Our total revenue increased by 227.2% from RMB514.5 million in 2018 to RMB1,683.4 million in 2019.

Revenue by Product Categories

In terms of product categories, the increase in our revenue was primarily due to (i) the increase in revenue generated from self-developed products by 307.0% from RMB340.1 million in 2018 to RMB1,384.2 million in 2019, which was mainly

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attributable to (a) the increased popularity of our IPs, (b) the expanded product portfolio and (c) the expansion of our sales and distribution network, and (ii) to a lesser extent, the increase in revenue generated from third-party products by 72.5% from RMB162.3 million in 2018 to RMB280.0 million in 2019 as a result of our business expansion.

Specifically, the increase in our revenue generated from self-developed products was mainly due to:

- *Revenue from Proprietary IPs.* Our revenue generated from proprietary IPs increased by 190.7% from RMB215.7 million in 2018 to RMB627.0 million in 2019, which was primarily due to (i) the increased revenue generated from self-developed products based on Molly and (ii) the increased revenue generated from self-developed products based on Dimoo.
- *Revenue from Exclusive Licensed IPs.* Our revenue generated from exclusive licensed IPs increased by 462.5% from RMB106.2 million in 2018 to RMB597.4 million in 2019, which was primarily due to (i) the increased revenue generated from self-developed products based on PUCKY, (ii) the increased revenue generated from self-developed products based on The Monsters which was successfully launched in the second half of 2019, and (iii) our expanded portfolio of exclusive licensed IPs.
- *Revenue from Non-exclusive Licensed IPs.* Our revenue generated from non-exclusive licensed IPs increased significantly from RMB18.2 million in 2018 to RMB159.8 million in 2019 as we enhanced our collaborations with IP providers.

Revenue by Sales Channels

In terms of sales channels, the increase in our revenue was primarily due to:

- *Revenue from retail stores.* Our revenue generated from retail stores increased by 197.9% from RMB248.3 million in 2018 to RMB739.7 million in 2019. The increase was primarily due to (i) the increase in number of our retail stores from 63 as of December 31, 2018 to 114 as of December 31, 2019, and (ii) the same store sales growth of retail stores.
- *Revenue from online channels.* Our revenue from online channels increased significantly from RMB102.9 million in 2018 to RMB539.2 million in 2019. The increase was primarily attributable to (i) the significant increase of our revenue generated from Pop Draw, which is primarily due to our innovative marketing efforts with interactive features that create playful and fun shopping experience, and (ii) the increase of our revenue generated from Tmall flagship store, which is primarily due to the increase of purchasing users through Tmall flagship store, the increase of our proprietary IPs and products, and the rising awareness of our brand.

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- *Revenue from roboshops.* Our revenue from roboshops increased significantly from RMB86.4 million in 2018 to RMB248.6 million in 2019. The increase was primarily due to the increase in number of our roboshops from 260 as of December 31, 2018 to 825 as of December 31, 2019.
- *Revenue from wholesale channels.* Our revenue from wholesale channels increased by 115.4% from RMB51.3 million in 2018 to RMB110.5 million in 2019. The increase was primarily attributable to increased revenue generated from distributors, which was mainly due to (i) the increased revenue generated from Nanjing Golden Eagle Pop Mart as a result of its business growth, and (ii) the increase in number of our distributors from 17 as of December 31, 2018 to 41 as of December 31, 2019.
- *Revenue from conventions.* Our revenue from conventions increased by 77.7% from RMB25.6 million in 2018 to RMB45.5 million in 2019. The increase was primarily due to the increased scale of conventions in 2019 as a result of the rising awareness and popularity of our brand and products, which generated more sales.

Cost of Sales

Our cost of sales increased by 173.9% from RMB216.5 million in 2018 to RMB593.1 million in 2019, which reflected the growth of our business and was in line with the increase in our revenue. The increase was primarily due to (i) the increase in cost of goods from RMB178.3 million in 2018 to RMB488.0 million in 2019, which was mainly due to our increased sales, and (ii) the increase in other costs from RMB38.2 million in 2018 to RMB105.1 million in 2019 primarily due to an increase in the design and licensing fees as a result of our enhanced IP development efforts.

Gross Profit

Our gross profit increased by 265.9% from RMB298.0 million in 2018 to RMB1,090.3 million in 2019, primarily due to an increase in our revenue.

Our gross profit margin increased from 57.9% in 2018 to 64.8% in 2019, primarily due to our self-developed products, which had a relatively higher gross profit margin, accounting for an increased portion of sales in 2019.

Distribution and Selling Expenses

Our distribution and selling expenses increased by 177.2% from RMB125.7 million in 2018 to RMB348.5 million in 2019, primarily due to (i) the increase in employee benefit expenses from RMB38.2 million in 2018 to RMB79.3 million in 2019 due to an increase in the headcount of our sales staff, and (ii) the increase in expense relating to short-term and variable leases from RMB17.8 million in 2018 to RMB51.8 million in 2019 because of our increased number of retail stores.

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General and Administrative Expenses

Our general and administrative expenses increased by 261.9% from RMB43.6 million in 2018 to RMB157.8 million in 2019, primarily due to (i) the increase in employee benefit expenses from RMB24.9 million in 2018 to RMB76.2 million in 2019 due to an increase in the headcount of our administrative staff, and (ii) the [REDACTED] expenses of RMB16.4 million we incurred in 2019 in relation to this [REDACTED].

Net Impairment Losses on Financial and Contract Assets

Our net impairment losses on financial and contract assets significantly increased from RMB0.3 million in 2018 to RMB3.1 million in 2019 primarily due to the increase in impairment losses on trade and other receivables.

Other Income

Our other income increased by 209.1% from RMB5.5 million in 2018 to RMB17.0 million in 2019, primarily due to the increase of RMB9.2 million in license income and the increase of RMB2.2 million in our government grants.

Other (Losses)/Gains, Net

We recorded net other losses of RMB0.3 million in 2018, as compared to net other gains of RMB0.8 million in 2019.

Operating Profit

As a result of the foregoing, our operating profit increased significantly from RMB133.6 million in 2018 to RMB598.8 million in 2019.

Share of Profit/(Loss) of Joint Venture

Our share of profit of joint venture increased by 400.0% from RMB1.0 million in 2018 to RMB5.0 million in 2019 as a result of the improved performance of Nanjing Golden Eagle Pop Mart.

Finance Expenses, Net

Our net finance expenses increased by 134.8% from RMB2.3 million in 2018 to RMB5.4 million in 2019 as a result of increased lease liabilities in relation to the increased number of our retail stores.

Income Tax Expense

Our income tax expense increased significantly from RMB32.7 million in 2018 to RMB147.3 million in 2019 due to the growth of our profit before income tax. Our effective tax rate remained relatively stable from 24.7% in 2018 to 24.6% in 2019.

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Profit for the Year

As a result of the foregoing, our profit for the year increased significantly from RMB99.5 million in 2018 to RMB451.1 million in 2019.

Adjusted Net Profit

As a result of the foregoing, our adjusted net profit increased by 367.5% from RMB100.3 million in 2018 to RMB468.9 million in 2019.

Year Ended December 31, 2018 Compared with the Year Ended December 31, 2017

Revenue

Our total revenue increased by 225.4% from RMB158.1 million in 2017 to RMB514.5 million in 2018.

Revenue by Product Categories

In terms of product categories, the increase in our revenue was primarily due to (i) the significant increase in revenue generated from self-developed products from RMB45.9 million in 2017 to RMB340.1 million in 2018, which was mainly attributable to (a) the increased popularity of our IPs, (b) the increased product portfolio and (c) the expansion of our sales and distribution network, and (ii) to a lesser extent, the increase in revenue generated from third-party products by 47.1% from RMB110.3 million in 2017 to RMB162.3 million in 2018 as a result of our business expansion.

Specifically, the increase in our revenue generated from self-developed products was mainly due to:

- *Revenue from Proprietary IPs.* Our revenue generated from proprietary IPs increased by 426.1% from RMB41.0 million in 2017 to RMB215.7 million in 2018, which was primarily due to the increased revenue generated from self-developed products created based on Molly.
- *Revenue from Exclusive Licensed IPs.* Our revenue generated from exclusive licensed IPs increased significantly from RMB4.8 million in 2017 to RMB106.2 million in 2018, which was primarily due to our collaboration with self-developed products based on PUCKY since 2018.

Revenue by Sales Channels

In terms of sales channels, the increase in our revenue was primarily due to:

- *Revenue from online channels.* Our revenue from online channels increased significantly from RMB14.9 million in 2017 to RMB102.9 million in 2018. The increase was primarily attributable to (i) the significant increase of our revenue generated from Tmall flagship store, which is primarily due to the

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increase of purchasing users through Tmall flagship store, the increase of our proprietary IPs and products, and the rising awareness of our brand, and (ii) the increase of our revenue generated from Pop Draw mini program, which is primarily due to our innovative marketing efforts with interactive features that create playful and fun shopping experience.

- *Revenue from retail stores.* Our revenue generated from retail stores increased by 145.8% from RMB101.0 million in 2017 to RMB248.3 million in 2018. The increase was primarily due to (i) the increase in number of our retail stores from 32 as of December 31, 2017 to 63 as of December 31, 2018, and (ii) the same store sales growth of retail stores.
- *Revenue from wholesale.* Our revenue from wholesale increased by 71.6% from RMB29.9 million in 2017 to RMB51.3 million in 2018. The increase was primarily attributable to increased revenue generated from distributors, which was mainly due to (i) the increased revenue generated from Nanjing Golden Eagle Pop Mart as a result of its business growth, and (ii) the increase in number of our distributors from six as of December 31, 2017 to 17 as of December 31, 2018.
- *Revenue from roboshops.* Our revenue from roboshops increased significantly from RMB5.6 million in 2017 to RMB86.4 million in 2018. The increase was primarily due to (i) the increase in number of our roboshops from 43 as of December 31, 2017 to 260 as of December 31, 2018, and (ii) the growth of the same roboshop revenue from RMB0.1 million in 2017 to RMB0.3 million in 2018.
- *Revenue from conventions.* Our revenue from conventions increased by 276.5% from RMB6.8 million in 2017 to RMB25.6 million in 2018. The increase was primarily due to (i) two conventions held in 2018 as compared to one convention in 2017; and (ii) the increased scale of conventions in 2018 as a result of the rising awareness and popularity of our brand and products, which generated more sales.

Cost of Sales

Our cost of sales increased by 161.5% from RMB82.8 million in 2017 to RMB216.5 million in 2018, which reflected the growth of our business and was in line with the increase in our revenue. The increase was primarily due to (i) the increase in cost of goods from RMB75.6 million in 2017 to RMB178.3 million in 2018, which was mainly due to our increased sales, and (ii) the increase in other costs from RMB7.2 million in 2017 to RMB38.2 million in 2018 primarily due to the increase of the design and licensing fees as a result of our enhanced IP development efforts.

Gross Profit

Our gross profit increased by 295.8% from RMB75.3 million in 2017 to RMB298.0 million in 2018, primarily due to an increase in our revenue.

Our gross profit margin increased from 47.6% in 2017 to 57.9% in 2018, primarily due to our self-developed products, which had a relatively higher gross profit margin, accounted for an increased portion of sales in 2018.

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Distribution and Selling Expenses

Our distribution and selling expenses increased by 146.5% from RMB51.0 million in 2017 to RMB125.7 million in 2018, primarily due to (i) the increase in employee benefit expenses from RMB16.9 million in 2017 to RMB38.2 million in 2018 due to an increase in the headcount of our sales staff, (ii) the increase in depreciation of property, plant and equipment from RMB19.8 million in 2017 to RMB30.2 million in 2018 as a result of our increased number of retail stores and roboshops, and (iii) the increase in expense relating to short-term and variable leases from RMB7.6 million in 2017 to RMB17.8 million in 2018 because of our increased number of retail stores.

General and Administrative Expenses

Our general and administrative expenses increased by 108.6% from RMB20.9 million in 2017 to RMB43.6 million in 2018, primarily due to the increase in employee benefit expenses from RMB10.5 million in 2017 to RMB24.9 million in 2018 due to an increase in the headcount of our administrative staff.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets remained relatively stable of RMB0.3 million in 2017 and RMB0.3 million in 2018.

Other Income

Our other income increased by 292.9% from RMB1.4 million in 2017 to RMB5.5 million in 2018, primarily due to the increase of RMB2.2 million in license fee income and the increase of RMB2.2 million in our government grants.

Other (Losses)/Gains, Net

We recorded net gains of RMB0.1 million in 2017, as compared to net losses of RMB0.3 million in 2018.

Operating Profit

As a result of the foregoing, our operating profit increased significantly from RMB4.4 million in 2017 to RMB133.6 million in 2018.

Share of Profit/(Loss) of Joint Venture

Our share of profit/(loss) of joint venture changed from a net loss of RMB0.4 million in 2017 to a net profit of RMB1.0 million in 2018 as a result of the improved performance of Nanjing Golden Eagle Pop Mart.

Finance Expenses, Net

Our net finance expenses increased by 27.8% from RMB1.8 million in 2017 to RMB2.3 million in 2018 as a result of our increased number of retail stores.

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Income Tax Expense

Our income tax expense increased significantly from RMB0.7 million in 2017 to RMB32.7 million in 2018 due to the growth of our profit before income tax. Our effective tax rate decreased from 31.0% in 2017 to 24.8% in 2018, which was primarily because some of our subsidiaries were loss making in 2017, thereby resulting in a higher effective tax rate.

Profit for the Year

As a result of the foregoing, our profit for the year increased significantly from RMB1.6 million in 2017 to RMB99.5 million in 2018.

Adjusted Net Profit

As a result of the foregoing, our adjusted net profit increased significantly from RMB1.7 million in 2017 to RMB100.3 million in 2018.

DISCUSSION OF CERTAIN KEY ITEMS OF CONSOLIDATED BALANCE SHEETS

The following table sets forth selected information from our consolidated balance sheets as of the dates indicated, which have been extracted from our Group's audited consolidated financial statements included in Appendix I to this Document.

	As of December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Total current assets	65,801	254,997	716,601
Total non-current assets	76,478	147,798	349,880
Total assets	142,279	402,795	1,066,481
Total current liabilities	44,019	144,874	381,570
Total non-current liabilities	19,436	39,091	92,130
Total liabilities	63,455	183,965	473,700
Total equity	78,824	218,830	592,781
Total equity and liabilities	142,279	402,795	1,066,481

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Current Assets and Current Liabilities

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of
	2017	2018	2019	April 30, 2020
	<i>(in RMB thousands)</i>			
Current assets				
Trade receivables	5,489	14,295	45,636	47,971
Other receivables	11,279	23,759	59,696	42,893
Inventories	15,540	29,061	96,302	156,200
Prepayments and other current assets	19,901	40,777	140,353	160,418
Financial assets at fair value through profit and loss	–	50,303	50,000	5,000
Cash and cash equivalents	13,592	96,802	324,614	789,461
Total current assets	65,801	254,997	716,601	1,201,943
Current liabilities				
Trade payables	7,132	32,633	64,583	63,203
Other payables	16,599	49,746	122,050	146,857
Contract liabilities	695	10,039	35,167	48,724
Lease liabilities-current	19,296	40,011	92,586	90,031
Current income tax liabilities	297	12,445	67,184	40,620
Total current liabilities	44,019	144,874	381,570	389,435
Net current assets	21,782	110,123	335,031	812,508

Our net current assets increased by [REDACTED]% from RMB[REDACTED] million as of December 31, 2019 to RMB812.5 million as of April 30, 2020. The increase was mainly due to (i) an increase in cash and cash equivalents of RMB[REDACTED] million, primarily due to our [REDACTED] investments in 2020, and (ii) an increase in inventory of RMB[REDACTED] million, primarily because we increased the stock of our products to meet the increasing demand of our products, partially offset by (i) an decrease in financial assets at fair value through profit or loss of RMB[REDACTED] million, primarily due to disposal of our investment in financial instruments, and (ii) an increase in other payables of RMB[REDACTED] million, primarily due to increased payables to employees as a result of the

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increased number of employees. For details of our [REDACTED] investments in 2020, see "History, Reorganization, and Corporate Structure — [REDACTED] Investments."

Our net current assets increased by 204.3% from RMB110.1 million as of December 31, 2018 to RMB335.0 million as of December 31, 2019. The increase was mainly due to (i) an increase in cash and cash equivalents of RMB227.8 million, primarily due to the growth of our business, (ii) an increase in prepayments and other current assets of RMB99.6 million, primarily due to the increased prepayments of inventories and design fee in line with the growth of our business and the expansion of our product portfolio, and (iii) an increase in inventories of RMB67.2 million, primarily due to the growth of our business, partially offset by (i) an increase in other payables of RMB72.3 million, primarily due to increased payables to employees as a result of the increased number of employees, and (ii) an increase in current income tax liabilities of RMB54.7 million, which was in line with our increased profit before income tax.

Our net current assets increased by 405.0% from RMB21.8 million as of December 31, 2017 to RMB110.1 million as of December 31, 2018. The increase was mainly due to (i) an increase in cash and cash equivalents of RMB83.2 million, primarily due to the growth of our business, and (ii) an increase in financial assets at fair value through profit or loss of RMB50.3 million, primarily due to investments in financial instrument issued by financial institutions in the PRC, partially offset by (i) an increase in other payables of RMB33.1 million, primarily due to increased payables to employees as a result of the increased number of employees, and (ii) an increase in trade payables of RMB25.5 million, primarily due to the growth of our business.

Trade Receivables

Trade 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 receivables as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Third parties	3,724	12,749	43,817
Related parties	1,802	1,756	4,752
	5,526	14,505	48,569
Subtotal			
Less: provision for impairment	(37)	(210)	(2,933)
	5,489	14,295	45,636
Total	5,489	14,295	45,636

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Our trade receivables increased from RMB5.5 million as of December 31, 2017 to RMB14.3 million as of December 31, 2018, and further increased to RMB45.6 million as of December 31, 2019. These increases were primarily due to an increase in payments from third parties including shopping malls, wholesale customers and e-commerce platforms reflecting the significant growth of our business. During the Track Record Period, there had not been any significant change in credit quality of our stores, distributors or online channels.

The following table sets forth our trade receivables turnover days for the Track Record Period:

	Years ended December 31,		
	2017	2018	2019
	<i>(days)</i>		
Trade receivables turnover days ¹	8	7	6

Notes:

- 1 Trade receivables turnover days for a period are calculated using the average of open balance and closing balance of the trade receivables for such period divided by revenue for the relevant period and multiplied by 360 days.

Our trade receivables turnover days remain relatively stable in 2017, 2018 and 2019.

The following table sets forth an aging analysis of our trade receivables, based on recognition date, as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Trade receivables			
Within 3 months	5,442	13,759	42,224
3 months to 6 months	70	592	3,711
Over 6 months	14	154	2,634
Total	5,526	14,505	48,569

In determining the recoverability of our trade receivables, we assess the credit risk quality 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, 2017, 2018 and 2019, we made provision for impairment of trade receivables of RMB0.04 million, RMB0.2 million and RMB2.7 million, respectively.

RMB42.4 million, or 92.9%, of our trade receivables as of December 31, 2019 had been settled as of April 30, 2020.

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Other Receivables

Our other receivables included in current assets mainly represent amounts due from deposits to shopping malls in relation to our retail stores and roboshops, capital injection receivables in relation to our [REDACTED] investments, and others. Our other receivables increased by 110.6% from RMB11.3 million as of December 31, 2017 to RMB23.8 million as of December 31, 2018, and further increased by 150.8% to RMB59.7 million as of December 31, 2019. The continued increases were primarily due to the increase of deposits, which was in line with the expansion of our retail store and roboshop network.

	As of December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Deposits for lease	9,113	18,051	53,495
Capital injection receivables	–	–	4,568
Others	2,695	6,334	2,622
Subtotal	11,808	24,385	60,685
Less: allowance for impairment of other receivables	(529)	(626)	(989)
Total	11,279	23,759	59,696

Inventories

Our inventories comprise finished goods. The following table sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Merchandise	15,597	29,318	98,269
Less: provision for impairment	(57)	(257)	(1,967)
Total	15,540	29,061	96,302

Our inventories increased by 87.7% from RMB15.5 million as of December 31, 2017 to RMB29.1 million as of December 31, 2018, and further increased by 230.9% to RMB96.3 million as of December 31, 2019. The increases were primarily because we increased the stock of our products to meet the increasing demand of our products.

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The following table sets forth our inventory turnover days for the Track Record Period:

	Years ended December 31,		
	2017	2018	2019
Inventory turnover days ¹	49	45	46

Notes:

- 1 Inventory turnover days for a period are calculated using the average of open balance and closing balance of the inventories for such period divided by cost of goods for the relevant period and multiplied by 360 days.

Our inventory turnover days remain relatively stable in 2017, 2018 and 2019.

RMB52.3 million, or 54.3%, of our inventories as of December 31, 2019 had been sold as of April 30, 2020.

Prepayments and Other Current Assets

Prepayments and other current assets primarily comprise prepayments for inventories, prepayments for design fees, prepayment for property, plant and equipment, prepayment for short-term leases, prepayment for [REDACTED] expense, deductible value-added input tax and others. The following table sets forth a breakdown of our prepayments and other current assets as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Prepayments for inventories	13,458	25,676	98,240
Prepayments for design fees	1,499	6,566	20,499
Prepayment for property, plant and equipment	316	3,903	10,443
Prepayment for short-term leases	2,117	1,461	3,055
Prepayment for [REDACTED] expense	–	–	2,530
Deductible value-added input tax	2,190	1,188	1,050
Others	637	5,886	14,979
Subtotal	20,217	44,680	150,796
Less: non-current portion	(316)	(3,903)	(10,443)
Current portion	19,901	40,777	140,353

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Our prepayments and other current assets increased by 244.1% from RMB40.8 million as of December 31, 2018 to RMB140.4 million as of December 31, 2019, primarily due to (i) an increase in prepayments for inventories of RMB72.6 million as a result of our business growth, and (ii) an increase in prepayments for design fees of RMB13.9 million as a result of the increased number of products.

Our prepayments and other current assets increased by 121.3% from RMB19.9 million as of December 31, 2017 to RMB40.8 million as of December 31, 2018, primarily due to (i) an increase in prepayments for inventories of RMB12.2 million as a result of our business growth, (ii) an increase in prepayments for design fees of RMB5.1 million as a result of the increased number of products, and (iii) an increase in prepayments for property, plant and equipment of RMB3.6 million as a result of the expansion of our retail store and roboshop network.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss represent our investment in financial instruments issued by financial institutions in the PRC and redeemable within six months to manage our cash and cash equivalents. The principals and returns of such investment are not guaranteed. Our financial assets at fair value through profit or loss was nil, RMB50.3 million and RMB50.0 million as of December 31, 2017, 2018 and 2019, respectively. The movement of our financial assets at fair value through profit or loss was primarily due to the purchase or disposal of our investment in financial instruments.

Cash and Cash Equivalents

Our cash and cash equivalents primarily comprise cash at bank. As of December 31, 2017, 2018 and 2019, substantially all of our cash and cash equivalents were denominated in Renminbi. Our cash and cash equivalents were RMB13.6 million, RMB96.8 million and RMB324.6 million as of December 31, 2017, 2018 and 2019, respectively. The increase in our cash and cash equivalents during the Track Record Period was primarily due to our business growth.

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Trade Payables

Trade payables primarily represent our obligation to pay for merchandise from suppliers in the ordinary course of business. Our suppliers may grant us credit terms of up to 180 days. Our trade payables were RMB7.1 million, RMB32.6 million and RMB64.6 million as of December 31, 2017, 2018 and 2019, respectively. The increase was primarily due to our business growth, which resulted in increasing procurement amount and hence higher balance of payables to our suppliers. The following table sets forth an aging analysis of our trade payables as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Within 30 days	2,775	9,975	38,782
30 to 90 days	1,304	10,999	11,652
90 to 180 days	1,397	6,754	5,028
Over 180 days	1,656	4,905	9,121
Total	7,132	32,633	64,583

The following table sets forth our trade payables turnover days for the Track Record Period:

	Years ended December 31,		
	2017	2018	2019
	<i>(days)</i>		
Trade payables turnover days ¹	23	40	36

Notes:

- 1 Trade payables turnover days for a period are calculated using the average of open balance and closing balance of the trade payables for such period divided by cost of goods for the relevant period and multiplied by 360 days.

Our trade payables turnover days increased from 23 days in 2017 to 40 days in 2018 primarily because our suppliers generally agreed to give us a longer credit period as our procurement amount increased. Our trade payables turnover days remained relatively stable of 40 days in 2018 and 36 days in 2019, which is shorter than the credit period provided by our suppliers due to our prompt payment.

RMB38.2 million, or 59.2%, of our trade payables as of December 31, 2019 had been settled as of April 30, 2020.

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Other Payables and Accruals

Our other payables and accruals consist mainly of (i) wages, salaries and other employee benefits, (ii) other tax payables, (iii) payables for short-term and variable rental expenses, (iv) accrual expenses, (v) amount received on behalf of a third party, (vi) amount received on behalf of merchants on conventions, (vii) deposits payables, (viii) payables for property, plant and equipment and intangible assets, (ix) others. The following table sets forth a breakdown of our other payables and accruals as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Wages, salaries and other employee benefits	5,135	12,284	31,968
Payables for short-term and variable rental expenses	782	4,631	11,854
Other tax payables	4,245	7,995	11,506
Accrual expenses	81	5,209	11,492
Deposit received in connection with the capital injection from a shareholder	–	–	11,427
Payables to merchants on conventions	710	3,965	9,547
Deposits payable	1,450	6,650	8,020
Payables for property, plant and equipment and intangible assets	530	5,212	4,059
Others	3,666	7,604	23,495
	16,599	53,550	123,368
Less: non-current portion	–	(3,804)	(1,318)
Current portion	16,599	49,746	122,050

Our other payables and accruals increased by 130.2% from RMB53.6 million as of December 31, 2018 to RMB123.4 million as of December 31, 2019, primarily due to (i) an increase in wages, salaries and other employee benefits of RMB19.7 million as a result of the increasing headcount of our employees; (ii) an increase in amount received on behalf of a third party of RMB11.4 million, which was in relation to transactions as a part of the Reorganization and was subsequently fully settled in January 2020, (iii) an increase in other tax payables of RMB3.5 million due to the growth of our business; and (iv) an increase in payables for short-term and variable rental expenses of RMB7.3 million in relation to the expansion of our retail store and roboshop network.

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Our other payables and accruals increased by 222.9% from RMB16.6 million as of December 31, 2017 to RMB53.6 million as of December 31, 2018, primarily due to (i) an increase in wages, salaries and other employee benefits of RMB7.2 million as a result of the increasing headcount of our employees; (ii) an increase in deposits payables of RMB5.2 million in relation to the expansion of our roboshop network; (iii) an increase in payables for short-term and variable rental expenses of RMB3.8 million in relation to the expansion of our retail store and roboshop network and (iv) an increase in other tax payables of RMB3.8 million due to the growth of our business.

Property, Plant and Equipment

Our property, plant and equipment consist mainly of (i) roboshops, (ii) moulds, (iii) equipment and others, and (iv) leasehold improvement. The following table sets forth a breakdown of the net book amount of our property, plant and equipment as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Roboshops	2,969	14,049	37,670
Moulds	2,207	6,000	23,632
Equipment and others	1,168	3,883	11,310
Leasehold improvement	5,752	11,942	30,947
Total	12,096	35,874	103,559

Our property, plant and equipment increased by 188.6% from RMB35.9 million as of December 31, 2018 to RMB103.6 million as of December 31, 2019, primarily due to (i) an increase in roboshops of RMB23.6 million as a result of the expansion of our roboshop network; (ii) an increase in leasehold improvement of RMB19.0 million as a result of the expansion of our retail network; and (iii) an increase in moulds of RMB17.6 million due to our expanded product portfolio.

Our property, plant and equipment increased by 196.7% from RMB12.1 million as of December 31, 2017 to RMB35.9 million as of December 31, 2018, primarily due to (i) an increase in roboshops of RMB11.1 million as a result of the expansion of our roboshop network; and (ii) an increase in leasehold improvement of RMB6.2 million as a result of the expansion of our retail network.

Intangible Assets

Our intangible assets consist mainly of (i) development cost and IP rights; and (ii) software.

Our intangible assets slightly increased from RMB17.6 million as of December 31, 2018 to RMB18.6 million as of December 31, 2019, primarily due to increased license of IPs in 2019.

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Our intangible assets increased significantly from RMB2.6 million as of December 31, 2017 to RMB17.6 million as of December 31, 2018, primarily due to (i) increased license of IPs in 2018 and (ii) we acquired the IP rights for Molly in China in 2018.

Right-of-use Assets

Our right-of-use assets comprise the initial measurement of the corresponding lease liability in relation to our retail stores and roboshops, lease payments made at or before the commencement date and any initial direct costs. Our right-of-use assets are depreciated starting at the commencement data over the shorter period of useful life of the underlying asset and lease term.

As of December 31, 2017, 2018 and 2019, our right-of-use assets were RMB35.1 million, RMB70.8 million and RMB178.9 million. The increase in our right-of-use assets during the Track Record Period were primarily attributable to the continuous expansion of our retail store and roboshop network.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates or for the periods indicated.

	Years ended December 31,		
	2017	2018	2019
Revenue growth	–	225.4%	227.2%
Same store sales growth of retail stores ⁽¹⁾	–	59.6%	63.1%
Gross margin	47.6%	57.9%	64.8%
Net profit margin	1.0%	19.3%	26.8%
Adjusted net profit margin	1.1%	19.5%	27.9%
Trade receivables turnover days ⁽²⁾	8 days	7 days	6 days
Trade payables turnover days ⁽³⁾	23 days	40 days	36 days
Inventory turnover days ⁽⁴⁾	49 days	45 days	46 days
	As of December 31,		
	2017	2018	2019
Current ratio ⁽⁵⁾	1.5	1.8	1.9
Return on assets ⁽⁶⁾	1.1%	24.7%	42.3%
Return on equity ⁽⁷⁾	2.0%	45.5%	76.1%

Notes:

- (1) Revenue growth of our same retail stores as compared to the previous period. Same retail stores represent retail stores that commenced operations prior to the beginning of the previous period under comparison and remained open until after the end of the current period.

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- (2) Trade receivables turnover days for a period are calculated using the average of open balance and closing balance of the trade receivables for such period divided by revenue for the relevant period and multiplied by 360 days.
- (3) Trade payables turnover days for a period are calculated using the average of open balance and closing balance of the trade payables for such period divided by cost of goods for the relevant period and multiplied by 360 days.
- (4) Inventory turnover days for a period are calculated using the average of open balance and closing balance of the inventories for such period divided by cost of goods for the relevant period and multiplied by 360 days.
- (5) Current ratio is calculated using total current assets divided by total current liabilities at the end of the year.
- (6) Return on assets is calculated using profit for the year divided by total assets at the end of the year, multiplied by 100%.
- (7) Return on equity is calculated using profit for the year divided by total equity at the end of the year, multiplied by 100%.

We achieved same store sales growth of retail stores of 59.6% in 2018 and 63.1% in 2019, primarily due to (i) the rising awareness and popularity of our brand and products, (ii) the increase in our product portfolio and (iii) the improved design and quality of our products.

Our current ratio increased from 1.5 in 2017 to 1.8 in 2018, and further to 1.9 in 2019, primarily due to the increase in our current assets, which was mainly attributable to the increase in our cash and cash equivalents, prepayments and other current assets and inventories.

Our return on assets increased from 1.1% in 2017 to 24.7% in 2018, and further to 42.3% in 2019, primarily due to the significant increase in our net profit.

Our return on equity increased from 2.0% in 2017 to 45.5% in 2018, and further to 76.1% in 2019, primarily due to the significant increase in our net profit.

RELATED PARTY TRANSACTIONS

For a discussion of related party transactions, see note 35 to the historical financial information in the Accountant's Report set forth in Appendix I to this Document.

Our Directors believe that the related party transactions were carried out on an arm's length basis and will not distort our results during the Track Record Period or make such results not reflective of our future performance.

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LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we had historically met our working capital and other capital requirements primarily through cash generated from our operating activities and capital injection from shareholders. We had cash and cash equivalents of RMB13.6 million, RMB96.8 million and RMB324.6 million as of December 31, 2017, 2018 and 2019, respectively.

The following table sets forth a summary of our cash flows for the periods indicated:

	Years ended December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Net cash generated from operating activities	15,507	175,000	502,889
Net cash used in investing activities	(8,884)	(100,510)	(118,267)
Net cash generated from/(used in) financing activities	(17,602)	8,718	(155,584)
Net increase/(decrease) in cash and cash equivalents	(10,979)	83,208	229,038
Cash and cash equivalents at the beginning of the year	24,571	13,592	96,802
Exchange gains/(loss) on cash and cash equivalents	–	2	(1,226)
Cash and cash equivalents at the end of the year	13,592	96,802	324,614

Taking into account the financial resources available to us, including our cash and cash equivalents on hand and the estimated [REDACTED] from the [REDACTED], our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next twelve months from the date of this Document.

Net Cash Generated in Operating Activities

For 2019, our net cash generated in operating activities was RMB502.9 million, which was primarily attributable to our profit before taxation of RMB598.4 million, as adjusted by (i) non-cash items, which primarily comprised depreciation of right-of-use assets of RMB70.3 million and depreciation on property, plant and equipment of RMB29.6 million, and (ii) changes in working capital. Positive changes in working capital primarily consisted of (i) an increase in prepayments and other current assets of RMB97.0 million, and (ii) an increase in inventories of RMB69.0 million, partially offset by (i) an increase in other payables of RMB62.3 million and (ii) an increase in trade payables of RMB32.0 million.

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For 2018, our net cash generated in operating activities was RMB175.0 million, which was primarily attributable to our profit before taxation of RMB132.3 million, as adjusted by (i) non-cash items, which primarily comprised depreciation of right-of-use assets of RMB29.4 million, and (ii) changes in working capital. Negative changes in working capital primarily consisted of (i) an increase in other payables of RMB32.3 million and (ii) an increase in trade payables of RMB25.5 million, partially offset by (i) an increase in prepayments and other current assets of RMB20.9 million, (ii) an increase in inventories of RMB13.7 million and (iii) an increase in other receivables of RMB12.6 million.

For 2017, our net cash generated in operating activities was RMB15.5 million, which was primarily attributable to our profit before taxation of RMB2.3 million, as adjusted by (i) non-cash items, which primarily comprised depreciation of right-of-use assets of RMB17.0 million, and (ii) changes in working capital. Positive changes in working capital primarily consisted of (i) an increase in prepayments and other current assets of RMB12.4 million, and (ii) an increase in inventories of RMB10.7 million, partially offset by an increase in other payables of RMB11.5 million.

Net Cash Used in Investing Activities

For 2019, our net cash used in investing activities was RMB118.3 million, which was primarily attributable to (i) purchase of financial assets at fair value through profit or loss of RMB255.0 million, offset by the net proceeds from disposal of financial assets at fair value through profit or loss of RMB257.0 million and (ii) purchases of property, plant and equipment of RMB105.0 million.

For 2018, our net cash used in investing activities was RMB100.5 million, which was primarily attributable to (i) purchase of financial assets at fair value through profit or loss of RMB140.0 million, offset by the net proceeds from disposal of financial assets at fair value through profit or loss of RMB90.5 million and (ii) purchases of property, plant and equipment of RMB35.5 million.

For 2017, our net cash used in investing activities was RMB8.9 million, which was primarily attributable to (i) purchase of financial assets at fair value through profit or loss of RMB37.0 million, offset by net proceeds from disposal of financial assets at fair value through profit or loss of RMB42.3 million and (ii) purchases of property, plant and equipment of RMB11.6 million.

Net Cash Generated from/Used in Financing Activities

For 2019, our net cash used in financing activities was RMB155.6 million, which was primarily attributable to (i) deemed distribution to the then shareholders for purchasing the [REDACTED] business of RMB168.1 million in relation to the Reorganization, (ii) dividend paid to shareholders of RMB80.0 million, and (iii) principle element of lease payment of RMB75.8 million, offset by capital injection from the Shareholders of our Company of RMB168.6 million in relation to the Reorganization.

For 2018, our net cash generated from financing activities was RMB8.7 million, which was attributable to capital injection of RMB39.7 million, offset by payment of lease liabilities of RMB31.0 million.

FINANCIAL INFORMATION

For 2017, our net cash used in financing activities was RMB17.6 million, which was attributable to payment of lease liabilities of RMB17.6 million.

INDEBTEDNESS

Bank Borrowings

We did not have any bank borrowings as of December 31, 2017, 2018 and 2019 and April 30, 2020.

Lease Liabilities

The following table shows the lease liabilities as of the dates indicated:

	As of December 31,			As of April 30,
	2017	2018	2019	2020
	<i>(in RMB thousands)</i>			
Lease liabilities:				
– Non-current portion	19,436	35,287	90,812	84,451
– Current portion	19,296	40,011	92,586	90,031
Total	38,732	75,298	183,398	174,482

Convertible Redeemable A Preferred Shares

As of April 30, 2020, there were 4,275,028 Preferred Shares in issue. The issue price of the Preferred Shares was US\$87.5 million (equivalent to approximately RMB617.5 million), representing US\$20.5 per share. For details, see Note 37 (b) to the Accountant's Report included in Appendix I to this Document.

Except as discussed above, as of April 30, 2020, being latest practicable date for the purpose of this indebtedness statement, we did not have any outstanding debt securities, borrowings or indebtedness in the nature of borrowings, acceptance credits, charges, mortgages, hire purchase or finance lease commitments, guarantees or other contingent liabilities. Our Directors confirm that, as of the Latest Practicable Date, there is no material change in our Company's indebtedness since April 30, 2020.

CONTINGENT LIABILITIES

We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we are involved in such material legal proceedings, we would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

FINANCIAL INFORMATION

As of the Latest Practicable Date, we did not have any material contingent liabilities or guarantees.

CAPITAL EXPENDITURES

Our capital expenditures consist of (i) purchases of property, plant and equipment and (ii) purchases of intangible assets. The following table sets forth our capital expenditures for the periods indicated:

	Years ended December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Purchases of property, plant and equipment	11,555	35,470	104,951
Purchases of intangible assets	2,735	15,552	12,551
Total	14,290	51,022	117,502

During the Track Record Period, we financed our capital expenditures primarily with cash generated from operations. We plan to fund our planned capital expenditures using cash generated from operating activities and [REDACTED] received from the [REDACTED]. See the section "Future Plans and Use of [REDACTED]" in this document for more details. We may reallocate the fund to be utilized on capital expenditures based on our ongoing business needs.

CONTRACTUAL OBLIGATIONS

Capital Commitments

The table below sets forth our capital commitments contracted for but not yet incurred as of the dates indicated.

	As of December 31,		
	2017	2018	2019
	<i>(in RMB thousands)</i>		
Contractual but not provided for			
– Property, plant and equipment	276	1,509	10,407
– Investment in an associate	–	–	26,818
Total	276	1,509	37,225

FINANCIAL INFORMATION

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties of related parties. We do 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 have 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 do 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.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to various types of financial risks, including foreign exchange risk, cash flow and fair value interest rate risk, credit risk and liquidity risk.

Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not our functional currency. The functional currency of the companies outside of PRC is United States dollar or Hong Kong dollar. The consolidated financial statements are presented in Renminbi, which is our Company's functional currency and our Company's and our Group's presentation currency. We manage our foreign exchange risk by performing regular reviews of our net foreign exchange exposures and we try to minimize these exposures through natural hedges, wherever possible.

We operate mainly in the PRC with most of the transactions settled in Renminbi. Our management considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of our Group denominated in currencies other than the respective functional currencies of our operating entities. We did not hedge against any fluctuation in foreign currency during the Track Record Period.

We had no net exchange loss or gains in 2017. In 2018, we recorded net exchange loss of RMB2 thousand. In 2019, we generated net exchange gains of RMB1.2 million.

Cash Flow and Fair Value Interest Rate Risk

Our income and operating cash flows are substantially independent of changes in market interest rates and we have no significant interest-bearing assets except for cash and cash equivalents and receivables from related parties, details of which have been disclosed in Notes 24 and 19, respectively, of the Accountant's Report.

We had no borrowings as of December 31, 2017, 2018 and 2019.

Credit Risk

We have no significant concentrations of credit risk. The carrying amounts of restricted cash, cash and cash equivalents, trade receivables, other receivables,

FINANCIAL INFORMATION

financial assets at fair value through profit or loss and amounts due from related parties included in the combined statements of financial position represent our Group's maximum exposure to credit risk in relation to our financial assets.

The credit risk of restricted cash, cash and cash equivalents and financial assets at fair value through profit or loss is limited because the counterparties are state-owned or reputable commercial banks which are high-credit-quality financial institutions located in the PRC. There has been no recent history of default in relation to these financial institutions.

We generated revenue through sale of products. We have a highly diversified customer base, without any single customer contributing material revenue.

For other receivables and amounts due from related parties, our management makes periodic assessments as well as individual assessment on the recoverability based on historical settlement records and past experience. Our Directors believe that there is no material credit risk inherent in our outstanding balance of other receivables.

Liquidity Risk

We aim to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, we maintain flexibility in funding by maintaining adequate cash and cash equivalents.

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The table below analyses our financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Over 2 years	Total
	<i>(in RMB thousands)</i>			
As of December 31, 2017				
Trade payables	7,132	–	–	7,132
Other payables (excluding wages, salaries and other employee benefit and tax payables)	7,219	–	–	7,219
Lease liabilities	20,667	13,770	6,450	40,887
As of December 31, 2018				
Trade payables	32,633	–	–	32,633
Other payables (excluding wages, salaries and other employee benefit and tax payables)	29,467	3,804	–	33,271
Lease liabilities	42,661	27,442	9,011	79,114
As of December 31, 2019				
Trade payables	64,583	–	–	64,583
Other payables (excluding wages, salaries and other employee benefit and tax payables)	78,576	1,318	–	79,894
Lease liabilities	98,576	70,142	24,474	193,192

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

Dividend Policy

In 2019, Beijing Pop Mart declared a dividend of approximately RMB80.0 million to its shareholders. We may distribute dividends in the future by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. The Board will review dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- our result of operations;
- our cash flows;

FINANCIAL INFORMATION

- our financial condition;
- our Shareholders' interests;
- general business conditions and strategies;
- our capital requirements;
- the payment by our subsidiaries of cash dividends to us; and
- other factors the Board may deem relevant.

Distributable Reserves

As of December 31, 2019, we did not have any distributable reserves.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us including our cash and cash equivalents on hand and the estimated [REDACTED] from the [REDACTED], our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document.

[REDACTED] EXPENSES

Based on the mid-point [REDACTED] of HK\$[REDACTED] (being the mid-point of our [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED]), the total [REDACTED] expenses (including [REDACTED]) payable by our Company are estimated to be approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), assuming the [REDACTED] is not exercised. These [REDACTED] expenses mainly comprise professional fees paid and payable to the professional parties, and [REDACTED] payable to the [REDACTED], for their services rendered in relation to the [REDACTED] and the [REDACTED].

As of December 31, 2019, We incurred RMB[REDACTED] of [REDACTED] expenses for the [REDACTED] of which RMB[REDACTED] was charged to our consolidated statements of comprehensive income and RMB[REDACTED] was capitalized as prepayment and will be accounted for as a deduction from our equity upon the Listing. We estimate that [REDACTED] expenses of approximately RMB[REDACTED] (including [REDACTED] of approximately RMB[REDACTED], assuming the [REDACTED] is not exercised and based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]) will be incurred by our Group, of which approximately RMB[REDACTED] is expected to be charged to our consolidated statement of comprehensive income and approximately RMB[REDACTED] is expected to be charged against equity upon the [REDACTED].

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[REDACTED]

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DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENT

COVID-19 Outbreak and Effects on Our Business

Background

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. The PRC government has implemented strict measures to control such outbreak in China. In particular, business closures, transport bans and workplace shutdowns helped to limit transmission of COVID-19. Demand for consumer goods was significantly affected. According to the National Bureau of Statistics, China's total retail sales of consumer goods decreased by 19.0% in the first quarter of 2020 compared with the same period of 2019.

Resumption of work in China has gradually taken place at locations less affected by the COVID-19 outbreak since February 2020. As of April 10, 2020, according to the Ministry of Industry and Information Technology, 98.6% of industrial enterprises of national scale and over 80% of small and medium enterprises in China had resumed operation.

Impacts of the COVID-19 Outbreak on Our Operations

Sales and Customers

The demand for pop toy products was negatively impacted during the COVID-19 outbreak, primarily because the mobility of consumers was restricted, the closures of stores, and the distribution capabilities of online sales channels were limited.

Since January 2020 and as of the Latest Practicable Date, a total of 88 retail stores and 279 roboshops had experienced temporary closure mainly ranging from one week to one month. As a result of the COVID-19 outbreak, our STS in 2020 has been postponed from April 2020 to November 2020, and we expect the number of participating artists and fans will decrease due to travel restrictions. Sales on our online channels have experienced growth during the COVID-19 outbreak, despite the negative affects due to difficulties in logistics and distribution. As of the Latest Practicable Date, substantially all of our retail stores and roboshops have re-opened and the restrictions on logistics and distribution have gradually lifted. It is expected that the adverse effects of the COVID-19 outbreak on our product sales will gradually subside.

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Production and Supply Chain

Affected by the COVID-19 outbreak and the government's relevant control measures, business operation of our contracted factories was temporarily suspended after the Chinese New Year in 2020, which has resulted in delays in launching new products. Since the middle of April, our contracted factories have fully resumed our business operations.

Due to the COVID-19 outbreak, the logistics and distribution of our products was delayed, which in turn had a negative effect on our sales. With the COVID-19 outbreak related travel restrictions have been gradually lifted, and the adverse effects on logistics and distribution have gradually subsided. As of the Latest Practicable Date, all of our third-party logistics suppliers resumed work.

Employees

Moreover, as social and work gatherings were banned, mandatory quarantine requirements were imposed and public transportation was suspended in certain cities and countries where our offices are located, a portion of our employees have been working remotely and our operations in those regions have been interrupted to the extent onsite services of our employees were required. As of the Latest Practicable Date, we had no case of employee infection.

Our Liquidity

As of December 31, 2019 we had cash and cash equivalents of RMB324.6 million. Taking into account the financial resources available to us including our cash and cash equivalents on hand and the estimated [REDACTED] from the [REDACTED], our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document.

Save as otherwise disclosed in this document, our Directors confirmed that, as of the date of this document, there have been no material adverse change in our financial or trading position or prospects since December 31, 2019.

According to the information currently available, our Directors are of the view that the COVID-19 outbreak would not have a material adverse effect on our results of operations in the year ending December 31, 2020 and our long-term business development.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since December 31, 2019, being the end date of the periods reported in the Accountant's Report included in Appendix I to this Document, and there is no event since December 31, 2019 that would materially affect the information as set out in the Accountant's Report.

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

See the section headed "Business — Our Strategies" for a detailed description of our future plans.

USE OF [REDACTED]

The aggregate [REDACTED] that we expect to receive from the [REDACTED] (after deducting [REDACTED] fees and estimated [REDACTED] in connection with the [REDACTED] and assuming an [REDACTED] of HK\$[REDACTED] [REDACTED], being the mid-point of the indicative range of the [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] [REDACTED]) will be approximately HK\$[REDACTED]. We will bear the [REDACTED], SFC transaction levy and Stock Exchange trading fee payable by us in connection with the issue of new Shares together with any applicable fees relating to the [REDACTED]. We intend to use the [REDACTED] we will receive from this [REDACTED] for the following purposes:

- approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the [REDACTED]) is expected to be used to finance part of our expansion plans of consumer access channels and overseas markets. We plan to enhance our omni-channel consumer access network, including opening up new retail stores and, roboshops and other consumer access channels, to better serve the needs of our fans. In respect of overseas markets, we plan to further expand our business into markets in Asia, Europe and North America;
- approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the [REDACTED]) is expected to be used to fund our potential investments in, acquisitions of and strategic alliance with companies along the value chain of our industry. For detailed discussion of our future acquisition strategy, see the section headed "Business — Our Strategies." As of the Latest Practicable Date, we had not identified any potential acquisition targets;
- approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the [REDACTED]) is expected to be used to invest in technology initiatives to strengthen our marketing and fan engagement efforts, and to enhance the digitalization of our business. For example, we plan to further enhance our big data and AI capabilities to improve the effectiveness of our marketing efforts through targeted and precision marketing. In addition, we plan to invest in the optimization of our self-operated apps and mini programs to enhance user experience through improved functionalities and services. Moreover, we plan to continue to deploy and optimize our various information technology systems to improve operating efficiencies;

FUTURE PLANS AND USE OF [REDACTED]

- approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the [REDACTED]) is expected to be used to expand our IP pool. We plan to enhance our ability to identify outstanding artists, such as through hosting and participating in more pop toy exhibits and events both in the PRC and overseas.. In addition, we also plan to recruit talented designers to join our in-house design team to enhance our in-house IP development capability and increase the number of our proprietary IP. We may also acquire popular IPs from our artists; and
- the remaining amount of approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing approximately [REDACTED]% of the [REDACTED]) is expected to be used for working capital and general corporate purposes.

In the event that the [REDACTED] is set at the high point or the low point of the [REDACTED], the [REDACTED] of the [REDACTED] will increase or decrease by approximately HK\$[REDACTED], respectively. Under such circumstances, we will increase or decrease the allocation of the [REDACTED] to the above purposes on a pro-rata basis.

If the [REDACTED] is exercised in full, the [REDACTED] that we will receive will be approximately HK\$[REDACTED], assuming an [REDACTED] of HK\$[REDACTED] (being the mid-point of the [REDACTED]). In the event that the [REDACTED] is exercised in full, we intend to apply the additional [REDACTED] to the above purposes in the proportions stated above.

To the extent that the [REDACTED] from the [REDACTED] are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the [REDACTED] into short-term demand deposits and/or money market instruments as long as it is deemed to be in the best interests of our Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

[REDACTED]

[REDACTED]

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HOW TO APPLY FOR [REDACTED]

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HOW TO APPLY FOR [REDACTED]

[REDACTED]

APPENDIX I

ACCOUNTANT'S REPORT

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Document. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[Letterhead of PricewaterhouseCoopers]

[Draft]

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF POP MART INTERNATIONAL GROUP LIMITED AND MORGAN STANLEY ASIA LIMITED AND CLSA CAPITAL MARKETS LIMITED

Introduction

We report on the historical financial information of Pop Mart International Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-72, which comprises the consolidated balance sheets as at 31 December 2017, 2018 and 2019, the Company balance sheet as at 31 December 2019 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 December 2017, 2018 and 2019 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-72 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 shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to

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ACCOUNTANT'S REPORT

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 accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers 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 presentation and preparation set out in Notes 1.3 and 2.1 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 accountant's report, a true and fair view of the financial position of the Company as at 31 December 2019 and the consolidated financial position of the Group as at 31 December 2017, 2018 and 2019 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 10 to the Historical Financial Information which contains information about the dividends paid by the companies now comprising the Group in respect of the Track Record Period and states that no dividends have been paid by Pop Mart International Group Limited in respect of the Track Record Period.

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ACCOUNTANT'S REPORT

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

[PricewaterhouseCoopers]

Certified Public Accountants

Hong Kong

[date]

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ACCOUNTANT'S REPORT

IFINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi and all value are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Consolidated Statements of Comprehensive Income

	Note	Year ended 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
Revenue	5	158,074	514,511	1,683,434
Cost of sales	6	(82,820)	(216,486)	(593,100)
Gross profit		75,254	298,025	1,090,334
Distribution and selling expenses	6	(51,047)	(125,721)	(348,533)
General and administrative expenses	6	(20,897)	(43,599)	(157,754)
Net impairment losses on financial assets	3.1(b)	(344)	(270)	(3,086)
Other income	7	1,362	5,484	17,013
Other gains/(losses)-net	7	51	(305)	820
Operating profit		4,379	133,614	598,794
Finance income	8	9	142	424
Finance expenses	8	(1,764)	(2,455)	(5,813)
Finance expenses – net	8	(1,755)	(2,313)	(5,389)
Share of (loss)/profit of joint ventures accounted for using the equity method		(351)	959	4,970
Profit before income tax		2,273	132,260	598,375

APPENDIX I

ACCOUNTANT'S REPORT

	Note	Year ended 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
Income tax expense	9	(704)	(32,739)	(147,257)
Profit for the year		1,569	99,521	451,118
Profit for the year attributable to:				
– Owners of the Company		1,569	99,521	451,118
Other comprehensive income				
Items that may be reclassified to profit or loss				
– Currency translation differences		–	–	903
Other comprehensive income for the year, net of tax		–	–	903
Total comprehensive income for the year		1,569	99,521	452,021
Total comprehensive income for the year attributable to:				
– Owners of the Company		1,569	99,521	452,021
Earnings per share for profit attributable to the owners of the Company				
– Basic and diluted (expressed in RMB per share)	11	0.01	0.86	3.91

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ACCOUNTANT'S REPORT

Consolidated Balance Sheets

	Note	As at 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
Assets				
Non-current assets				
Property, plant and equipment	12	12,096	35,874	103,559
Intangible assets	13	2,580	17,641	18,620
Right-of-use assets	14	35,078	70,816	178,938
Investment in joint ventures	16	10,839	11,798	22,101
Prepayments	22	316	3,903	10,443
Deferred income tax assets	17	15,569	7,766	16,219
Total non-current assets		76,478	147,798	349,880
Current assets				
Trade receivables	19	5,489	14,295	45,636
Other receivables	20	11,279	23,759	59,696
Inventories	21	15,540	29,061	96,302
Prepayments and other current assets	22	19,901	40,777	140,353
Financial assets at fair value through profit or loss	23	–	50,303	50,000
Cash and cash equivalents	24	13,592	96,802	324,614
Total current assets		65,801	254,997	716,601
Total assets		142,279	402,795	1,066,481

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	Note	As at 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
Equity				
Equity attributable to the owners of the Company				
Share capital	25	–	–	82
Other reserves	26	75,889	126,800	169,631
Retained earnings		2,935	92,030	423,068
Total equity		78,824	218,830	592,781
Liabilities				
Non-current liabilities				
Other payables	29	–	3,804	1,318
Lease liabilities-non current	31	19,436	35,287	90,812
Total non-current liabilities		19,436	39,091	92,130
Current liabilities				
Trade payables	28	7,132	32,633	64,583
Other payables	29	16,599	49,746	122,050
Contract liabilities	30	695	10,039	35,167
Lease liabilities-current	31	19,296	40,011	92,586
Current income tax liabilities		297	12,445	67,184
Total current liabilities		44,019	144,874	381,570
Total liabilities		63,455	183,965	473,700
Total equity and liabilities		142,279	402,795	1,066,481

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Company Balance Sheet

	<i>Note</i>	As at 31 December 2019
		<u>RMB'000</u>
Assets		
Non-current assets		
Investments in subsidiaries	15	<u>7,381,806</u>
Total non-current assets		<u>7,381,806</u>
Current assets		
Other receivables	20	4,568
Cash and cash equivalents	24	<u>12,302</u>
Total current assets		<u>16,870</u>
Total assets		<u>7,398,676</u>
Equity		
Equity attributable to the owners of the Company		
Share capital	25	82
Other reserves	26	7,381,724
Retained earnings		<u>2</u>
Total equity		<u>7,381,808</u>
Liabilities		
Current liabilities		
Other payables	29	<u>16,868</u>
Total current liabilities		<u>16,868</u>
Total liabilities		<u>16,868</u>
Total equity and liabilities		<u>7,398,676</u>

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Consolidated Statements of Changes in Equity

	<i>Note</i>	Share capital <i>(Note 25)</i> <i>RMB'000</i>	Other reserves <i>(Note 26)</i> <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2017		–	75,787	1,366	77,153
Comprehensive income					
Profit for the year		–	–	1,569	1,569
Total comprehensive income		–	–	1,569	1,569
Transaction with owners					
Share-based compensation expenses	27	–	102	–	102
Total transaction with owners		–	102	–	102
Balance at 31 December 2017		–	75,889	2,935	78,824
Balance at 1 January 2018		–	75,889	2,935	78,824
Comprehensive income					
Profit for the year		–	–	99,521	99,521
Total comprehensive income		–	–	99,521	99,521
Transaction with owners					
Profit appropriation to statutory reserves		–	10,426	(10,426)	–
Capital injection from a then shareholder of a group company	26	–	39,703	–	39,703
Share-based compensation expenses	27	–	782	–	782
Total transaction with owners		–	50,911	(10,426)	40,485
Balance at 31 December 2018		–	126,800	92,030	218,830

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	<i>Note</i>	Share capital	Other reserves	Retained earnings	Total
		<i>(Note 25)</i> <i>RMB'000</i>	<i>(Note 26)</i> <i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2019		–	126,800	92,030	218,830
Comprehensive income					
Profit for the year		–	–	451,118	451,118
Other comprehensive income					
Currency translation difference		–	903	–	903
Total comprehensive income		–	903	451,118	452,021
Transaction with owners					
Profit appropriation to statutory reserves		–	40,080	(40,080)	–
Capital injection from shareholders of the Company	25	82	173,040	–	173,122
Deemed distribution to the then shareholders of a group company to give effect to the Reorganisation	1.2	–	(172,659)	–	(172,659)
Dividends	10	–	–	(80,000)	(80,000)
Share-based compensation expenses	27	–	1,467	–	1,467
Total transaction with owners		82	41,928	(120,080)	(78,070)
Balance at 31 December 2019		82	169,631	423,068	592,781

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Consolidated Statements of Cash Flows

	Note	Year ended 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Cash generated from operations	33(a)	15,512	187,644	603,437
Interest received		10	143	424
Income tax paid		(15)	(12,787)	(100,972)
Net cash generated from operating activities		15,507	175,000	502,889
Cash flows from investing activities				
Purchases of property, plant and equipment		(11,555)	(35,470)	(104,951)
Purchases of intangible assets		(2,735)	(15,552)	(12,551)
Purchases of financial assets at fair value through profit or loss	3.3	(37,000)	(140,000)	(255,000)
Investment in a joint venture		–	–	(2,746)
Proceeds from disposal of financial assets at fair value through profit or loss	3.3	42,328	90,512	256,981
Proceeds from disposal of property, plant and equipment	33(b)	78	–	–
Net cash used in investing activities		(8,884)	(100,510)	(118,267)

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	Note	Year ended 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
Cash flows from financing activities				
Capital injection from a then shareholder of a group company	26	–	39,703	–
Payment of lease liabilities	33(c)	(17,602)	(30,985)	(75,773)
Dividends paid	10	–	–	(80,000)
Payment for [REDACTED] expenses		–	–	(272)
Capital injection from the shareholders of the Company	25	–	–	168,554
Deemed distribution to the then shareholders for purchasing the [REDACTED] Business	26	–	–	(168,093)
Net cash (used in)/ generated from financing activities		(17,602)	8,718	(155,584)
Net (decrease)/ increase in cash and cash equivalents		(10,979)	83,208	229,038
Cash and cash equivalents at beginning of the year		24,571	13,592	96,802
Exchange gains/(loss) on cash and cash equivalents		–	2	(1,226)
Cash and cash equivalents at end of the year		13,592	96,802	324,614

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II NOTE TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

Pop Mart International Group Limited (the "Company") was incorporated in the Cayman Islands on 9 May 2019 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Sertus Incorporations (Cayman) Limited, Sertus Chambers, Governors Square, Suite # 5-204, 23 Lime Tree Bay Avenue, P.O. Box 2547, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in the product design and development and sale of pop toys (the "[REDACTED] Business") in the People's Republic of China (the "PRC") and certain overseas countries and regions. The ultimate holding company of the Company is GWF Holding Limited (formerly known as Grant Wang Holding Limited), which is controlled by Mr. Wang Ning and his spouse, Ms. Yang Tao (collectively, the "Controlling Shareholders").

1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the "Reorganisation") as describe below, the [REDACTED] Business was carried out by Beijing Pop Mart Cultural & Creative Co., Ltd. ("Beijing Pop Mart") and its subsidiaries in the PRC. Before the completion of the Reorganisation, Beijing Pop Mart and its subsidiaries were controlled by the Controlling shareholders.

On 25 January 2017, shares of Beijing Pop Mart were listed on National Equities Exchange and Quotation ("NEEQ") under stock code of 870578.

On 2 April 2019, Beijing Pop Mart was delisted from NEEQ.

For the purpose and preparation for the [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganisation to establish the Company as the holding company of the [REDACTED] Business, operated by Beijing Pop Mart and its subsidiaries, which mainly involved the following:

- (i) On 6 May 2019, Beijing Pop Mart was converted from joint stock company into a company with limited liability.
- (ii) On 9 May 2019, the Company was incorporated in the Cayman Islands with an authorised share capital of US dollar ("USD") 50,000, consisting of 500,000,000 ordinary shares of USD 0.0001 par value each, of which 54,833,989 shares were issued to GWF Holding Limited on the same date.
- (iii) On 10 May 2019, Pop Mart (BVI) Holding Limited ("Pop Mart BVI") was incorporated by the Company in the British Virgin Islands ("BVI") with an authorised share capital of USD 50,000, consisting of 50,000 ordinary shares of USD 1 par value each.
- (iv) On 27 May 2019, Pop Mart (Hong Kong) Holding Limited ("Pop Mart Hong Kong") was incorporated in Hong Kong as a direct wholly-owned subsidiary of Pop Mart BVI. The authorised share capital of Pop Mart Hong Kong is HKD 1, consisting of 1 share with a par value of HKD 1.
- (v) On 2 August 2019, Pop Mart Hong Kong entered into a share transfer agreement with all the then shareholders of Beijing Pop Mart, pursuant to which Pop Mart Hong Kong agreed to acquire all the issued share capital of Beijing Pop Mart from the then shareholders of Beijing Pop Mart at the total cash consideration of RMB172,659,200.

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From 9 May 2019 to 11 September 2019, the Company allotted and issued an aggregate 115,456,278 ordinary shares to the then shareholders of Beijing Pop Mart.

Following the completion of the above transactions, Beijing Pop Mart became an indirect wholly-owned subsidiary of the Company, through Pop Mart Hong Kong.

Upon completion of the Reorganisation, each of the owners of Beijing Pop Mart became the shareholders of the Company with substantially the same shareholding percentages in Beijing Pop Mart before and after the Reorganisation, and the Company became the holding company of the companies now comprising the Group.

In order to comply with the PRC laws and regulations which prohibit or restrict foreign control of companies involved in provision of internet technology services, the Group operates its internet technology services in the PRC through Beijing Paquhuyu Technology Co., Ltd. ("Paqu Huyu", a limited liability company incorporated under the laws of the PRC) whose equity interests are held by certain management members of the Group ("Registered Shareholders"). The Group obtained control over Paqu Huyu via a series of contractual arrangements signed between Beijing Pop Mart, Paqu Huyu and the Registered Shareholders ("Contractual Arrangements"). The Contractual Arrangements include exclusive consultation and service agreement, exclusive option agreement, share pledge agreement, voting right proxy agreement and powers of attorney and spouse undertaking, which enables Beijing Pop Mart and the Group to:

- govern the financial and operating policies of Paqu Huyu
- exercise equity holder's voting rights of Paqu Huyu
- receive substantially all of the economic interest returns generated by Paqu Huyu in consideration of the exclusive consultation and service agreement
- obtain an irrevocable and exclusive right to purchase part or all of the equity interests in Paqu Huyu at any time and from time to time, for considerations equivalents to the respectively outstanding loans to each Registered Shareholders, and
- obtain a pledge over the entire equity interests of Paqu Huyu from its respective Registered Shareholders as collaterals for all of Paqu Huyu's payments due to Beijing Pop Mart to secure performance of Paqu Huyu's obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over Paqu Huyu, receive variable returns from its involvement with Paqu Huyu, has the ability to affect those returns through its power over Paqu Huyu and is considered to control PaquHuyu. Consequently, the Company regarded Paqu Huyu as a controlled structured entity and consolidated its financial position and results of operations in the Historical Financial Information of the Group during the Track Record Period.

Nevertheless, there are still uncertainties regarding the interpretation and application of current and future PRC laws and regulations. The Group, based on the advice of its legal counsel, considers that the use of the Contractual Arrangements does not constitute a breach of the relevant laws and regulations.

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Upon completion of the Reorganisation and as at the date of this report, the Company had direct and indirect interests in the following subsidiaries:

Company name	Country/place and date of establishment/incorporation	Authorised capital	At 31 December			As of the date of this report	Principal activities/place of operation	Note
			2017	2018	2019			
			Attributable equity interest of the Group					
Directly held								
Pop Mart BVI	The British Virgin Islands ("BVI"), 10 May 2019	USD 50,000	–	–	100%	100%	Investment holding/BVI	(i)
Indirectly held								
Pop Mart Hong Kong	Hong Kong, 27 May 2019	HKD 1	–	–	100%	100%	Investment holding/Hong Kong	(i)
Beijing Pop Mart	The PRC, 20 October 2010	RMB115,456,278	100%	100%	100%	100%	Design and sales of pop toys/The PRC	(ii)
Beijing Paqu Technology Co.,Ltd.	The PRC, 21 April 2016	RMB1,000,000	100%	100%	100%	100%	Sales of pop toys/The PRC	(i)
Tianjin Pop Mart Cultural Communication Co.,Ltd.	The PRC, 29 November 2016	RMB5,000,000	100%	100%	100%	100%	Sales of pop toys/The PRC	(i)
Shanghai Paqu Commerce Co.,Ltd.	The PRC, 21 September 2017	RMB2,000,000	100%	100%	100%	100%	Sales of pop toys/The PRC	(i)
Beijing Pop Mart Commerce Co.,Ltd.	The PRC, 11 October 2017	RMB5,000,000	100%	100%	100%	100%	Sales of pop toys/The PRC	(i)
Pop Mart Hong Kong Limited	Hong Kong, 27 January 2017	HKD1,000,000	100%	100%	100%	100%	Overseas operations and sales of pop toys/Hong Kong	(i)
Beijing Pop Mart International Trading Co.,Ltd.	The PRC, 2 January 2019	RMB1,000,000	–	–	100%	100%	Sales of pop toys/The PRC	(i)
Paqu Huyu (Note 1.2)	The PRC, 8 March 2016	RMB10,000,000	–	–	–	–	Sales of pop toys/The PRC	(i)
Shenzhen Pop Mart Commerce Co.,Ltd.	The PRC, 31 October 2017	RMB1,000,000	100%	100%	100%	100%	Sales of pop toys/The PRC	(i)
Chengdu Pop Mart Commerce Co.,Ltd.	The PRC, 22 November 2011	RMB1,000,000	100%	100%	100%	100%	Sales of pop toys/The PRC	(i)
Chongqing Paqu Commerce Co.,Ltd.	The PRC, 23 November 2017	RMB1,000,000	100%	100%	100%	100%	Sales of pop toys/The PRC	(i)

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Company name	Country/place and date of establishment/incorporation	Authorised capital	Attributable equity interest of the Group			As of the date of this report	Principal activities/place of operation	Note
			At 31 December					
			2017	2018	2019			
Beijing Paqu Commerce Co.,Ltd.	The PRC, 29 December 2017	RMB1,000,000	100%	100%	100%	100%	Sales of pop toys/ The PRC	(i)
Shenyang Paqu Commerce Co.,Ltd.	The PRC, 1 March 2018	RMB1,000,000	–	100%	100%	100%	Sales of pop toys/ The PRC	(i)
Zhengzhou Pop Mart Commerce Co.,Ltd.	The PRC, 4 April 2018	RMB1,000,000	–	100%	100%	100%	Sales of pop toys/ The PRC	(i)
Qingdao Pop Mart Commerce Co.,Ltd.	The PRC, 14 April 2018	RMB1,000,000	–	100%	100%	100%	Sales of pop toys/ The PRC	(i)

- (i) There is no statutory audit requirement under the applicable law in the place of incorporation of these entities.
- (ii) The consolidated financial statements of Beijing Pop Mart for the year ended 31 December 2017 were audited by BDO Certified Public Accountants LLP. Beijing Pop Mart had not prepared statutory financial statements for the years ended 31 December 2018 and 2019 as its shares were delisted from NEEQ on 2 April 2019.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the [REDACTED] Business is carried out by Beijing Pop Mart and its subsidiaries. Pursuant to the Reorganisation, the [REDACTED] Business consisting of Beijing Pop Mart and its subsidiaries are transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a recapitalisation of the [REDACTED] Business with no change in management and the owners of the [REDACTED] Business. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the [REDACTED] Business under Beijing Pop Mart and for the purpose of this report, the Historical Financial Information has been prepared on a consolidated basis and is presented using the carrying values of the [REDACTED] Business under Beijing Pop Mart for all periods presented.

Inter-company transactions, balances and unrealized gains/losses on transactions between the groups companies are eliminated on consolidation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB").

The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of the Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

The IASB has issued a number of new and revised IFRS during the Track Record Period. For the purpose of preparing the Historical Financial Information, the Group has adopted all applicable new and

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revised IFRSs including IFRS 9 Financial Instruments ("IFRS 9"), IFRS 15 Revenue from Contracts with Customers ("IFRS 15") and IFRS 16 Leases ("IFRS 16") throughout the Track Record Period except for any new standards or interpretation that are not yet effective for the reporting period ended 31 December 2019.

2.2 Changes in accounting policies and disclosures

The following new standards, amendments and interpretations to existing IFRSs have been published and are not mandatory for the reporting period ended 31 December 2019 and have not been early adopted by the Group.

New standards, interpretations and amendments	Effective date
Amendments to IFRS 3 - Definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8 - Definition of materiality	1 January 2020
Conceptual Framework for Financial Reporting 2018	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 — Interest Rate Benchmark Reform	1 January 2020
IFRS 17 — Insurance contracts	1 January 2022
Amendments to IFRS 10 and IAS 28 — "Sale or contribution of assets between an investor and its associates or joint ventures"	To be determined
Amendments to IAS 1 — Classification of Liabilities as Current or Non-current	1 January 2022

The Group has already commenced an assessment of the impact of these new or revised standards and amendments. According to the preliminary assessment made by the Group, no significant impact on the Group's financial statements is expected when they become effective.

2.3 Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Subsidiary controlled through Contractual Arrangements

There is an entity controlled by the Group under Contractual Arrangements. The Group does not have legal ownership in equity of the structured entity. Nevertheless, under Contractual Arrangement entered into with the Registered Shareholders of the structured entity, the Company and its other legally owned subsidiaries controlled the structured entity by way of controlling the voting rights, governing its financial and operating policies, appointing or removing the majority of members of its controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over the structured entity, receives variable returns from involvement in the structured entity. As a result, it is presented as a controlled structured entity of the Group.

(ii) Joint ventures

Interests in joint ventures are accounted for using the equity method (see (iii) below), after initially being recognised at cost in the consolidated balance sheet.

(iii) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit

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or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.10.

2.4 Business combinations

(a) *Business combination under common control*

Business combinations under common control refers to combinations where combining entities are controlled by the same parties before and after the combination and that control is not transitory.

The acquirer measures both the consideration paid and the net assets obtained at their carrying amounts. The difference between the carrying amount of the net assets and carrying amount of consideration paid is recorded in reserve. All direct transaction cost attributable to the business combination is recorded in the consolidated statements of comprehensive income in the Track Record Period. However, the handling fees, commissions and other expenses incurred for the issuance of equity instruments or bonds for the business combination are recorded in the initial measurement of the equity instruments and bonds respectively.

(b) *Business combination not under common control*

The acquisition method of accounting is used to account for business combinations not under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

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over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a gain on bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Group on the basis of dividend received and receivables.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the financial information of the investee's net assets including goodwill.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive director of the Group.

2.7 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the companies outside of PRC is United States dollar ("USD") or Hong Kong dollars ("HKD"). The consolidated financial information is presented in Renminbi ("RMB"), which is the Company's and Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within "finance expenses — net". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "Other gains/(losses)-net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

2.8 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Roboshop machine	5 years
Moulds	3-5 years
Equipment and others	5 years
Leasehold improvement	Shorter of remaining lease term or useful life

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other gains/ (losses)-net" in the consolidated statements of comprehensive income.

2.9 Intangible assets

(i) Software

Acquired software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

(ii) Intellectual property rights ("IP Rights")

Acquired IP rights are capitalised on the basis of the costs incurred to acquire. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses. Variable payments in relation to purchase of IP rights that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

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(iii) Licenses of character images

License rights are stated at historical cost less accumulated amortisation and accumulated impairment losses. The historical costs of license rights are measured at the present values of the fixed minimum payments at the date of purchase of the respective license rights. Variable payments in relation to license rights that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

(iv) Research and development costs

Research cost is recognised in profit or loss in the period in which it is incurred. Development cost is capitalised only if all of the following conditions are satisfied:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Other development costs that do not meet those criteria are expensed as incurred.

(v) Amortisation methods and periods

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

Software	5 years
IP rights	10 years
Licenses of character images	2-5 years

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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2.11 Investments and other financial assets

(a) *Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

(c) *Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss ("FVPL") are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the consolidated statements of comprehensive income when the asset is derecognised or impaired. Interest income from these financial assets is included in interest income using the effective interest rate method. Impairment losses are presented as separate line item in the statement of comprehensive income.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or financial assets at fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the consolidated statements of comprehensive income within "Other gains/ (losses)-net" in the period in which it arises.

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Equity instruments

The Group subsequently measures all equity instruments at fair value. Where the Group's management has elected to present fair value gains and losses on equity instruments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other gains, net when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "Other gains/ (losses)-net" in the statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for details.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Costs of purchased inventory are determined after deducting rebates and discounts. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital and shares held for share award scheme

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Shares held for the share award scheme are disclosed as "Shares held for Share Award Scheme" and deducted from equity until the shares are vested or cancelled.

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2.17 Trade payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 180 days of recognition. Trade payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Contract liabilities

A contract liability is recognised when the Group has received considerations from the customers before the control of the goods transferred or the services rendered.

2.19 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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2.20 Employee benefits

(a) *Short-term obligations*

Liabilities for wages and salaries that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(b) *Pension, housing funds, medical insurances and other social insurances*

In accordance with the rules and regulations in the PRC, the Group has arranged for its PRC employees to join defined contribution plans, including pension, medical, housing and other welfare benefits, recognised by the PRC government. According to the relevant regulations, the monthly contributions that should be borne by the PRC subsidiaries of the Company are calculated based on percentages of the total salary of employees, subject to a certain ceiling. The assets of these plans are held separately from those of the Group in independent funds managed by the PRC government.

The Group has no further payment obligations once the above contributions have been paid. The Group's contributions to these plans are charged in the consolidated statement of comprehensive income as incurred.

2.21 Share-based payments

Share-based compensation benefits are provided to employees via share award scheme. Information relating to the schemes is set out in Note 24. The fair value of the services received in exchange for the grant of the restricted shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the restricted shares granted as at grant date, including any market performance conditions, excluding the impacts of any service and non-market performance vesting conditions as well as including any non-vesting conditions, when applicable. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the shares are exercised.

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivables for goods supplied or serviced provided, stated net of discounts and the relevant business taxes or value added taxes.

(a) *Sale of goods — retail store sales and roboshop sales*

The Group operates a chain of retail stores and roboshop machines for selling pop toys. Revenue from sales of goods are recognised when the control of the product has transferred to the customer. There was no right of return for the sales to the end customer. Retail sales are usually settled in cash, by credit/debit cards or through online payment platforms.

Despite that a majority of roboshop machines are directly operated by the Group, certain roboshop machines are operated by third party roboshop partners where the Group grants roboshop partners the right to operate roboshop machines for selling pop toys for a period of two years. Roboshop partner acts as an agent of the Group rather than the principal in the transaction since roboshop partner is not primarily responsible for fulfilling the promise to provide the pop toys to the customers, does not take inventory risk and has no pricing latitude. Hence roboshop partners do not obtain the control of goods before they are transferred to the customer. Revenue is recognised when control of the products has transferred to the customer, and the commissions to roboshop partners is charged to "distribution and selling expenses".

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(b) Sale of goods — online sales

Pop toys are also sold through self-operated online platform or other third-party e-commercial platform and revenue is recognised when the control of the products has transferred to the customer, which is the point of acceptance by the customers. Revenue from these sales are recognised based on the price, net of the estimated sales discounts at the time of sale. Transactions are settled in cash, by credit/debit cards or through online payment platforms. The commissions to the third party e-commercial platform is an incremental cost to obtaining a contract. The Group apply the practical expedient to expense the commissions as incurred as the expected amortisation period is one year or less.

(c) Sale of goods — customer loyalty programme

The Group operates a loyalty programme where retail and online customers accumulate points for purchases made which entitle them to discounts on future purchases. A contract liability for the award points is recognised at the time of the sale. Revenue from the award points is recognised when the points are redeemed or when they expire at the end of the year during which the initial sale occurs.

A contract liability is recognised until the points are redeemed or expired.

(d) Sales of goods — wholesale

Revenue are recognised when control of the products has transferred, being when products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(e) Revenue from conventions

The Group holds conventions that enable the Group and third party brand owners to sell pop toys to the customers. Revenue from holding conventions includes selling convention tickets, commission income and sales of the Group's products. For tickets sold, revenue is recognised in the accounting period in which the services are rendered. For commission income, revenue is recognised upon sales of goods by the relevant brand owners. For sales of goods, revenue is recognised when the control of the products has transferred to the customer, see Note 2.22(a) above.

(f) License fee income

The Group licenses characters for use to third parties on relevant products for a period. The income is recognised ratably in the contractual period.

2.23 Leases

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of 2 to 5 years.

As indicated in Note 2.1 above, the Group has adopted IFRS 16 Leases from 1 January 2017 and throughout the Track Record Period.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate ranging from 4.75% to 4.95% on 1 January 2017 and throughout the Track Record Period.

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In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2017;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2017 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and;
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The accounting policies are disclosed below:

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets mainly include automatic vending machines which is less than RMB35,000.

(a) Variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a store. For certain stores including fixed and variable rental payment terms, the lease payments are on the basis of variable payment terms with percentages ranging from 9% to 18% of sales. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

(b) Modification of lease

A lease liability is remeasured upon a change in the lease term, changes in an index or rate used to determine the lease payments or reassessment of exercise of a purchase option. The corresponding adjustment is made to the related right-of-use assets.

2.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to expenses are deferred and recognised in the profit or loss or deducted against related expenses over the period necessary to match them with the expenses that they are intended to compensate.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

2.25 Interest income

Interest income from financial assets at FVPL is included in the "Other gains/(losses)-net", see Note 7 below.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 8 below.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 8 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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2.26 Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2.27 Earnings per share

(i) *Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, primarily the credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk	Exposure arising from	Measurement
Market risk — foreign exchange	Financial assets and liabilities denominated in foreign currency different from its functional currency.	Cash flow forecasting Sensitivity analysis
Credit risk	Cash and cash equivalents, financial assets at FVPL, trade receivables and other receivables.	Aging analysis Credit limit
Liquidity risk	Financial liabilities	Rolling cash flow forecasts

(a) *Market risk*

(i) *Foreign exchange risk*

The Group's businesses are principally conducted in RMB, which is exposed to foreign currency risk with respect to transactions denominated in currencies other than RMB. Foreign exchange risk arises from recognised assets and liabilities and net investments in foreign operations. The Group did not enter into any forward contract to hedge its exposure to foreign currency risk for the year ended 31 December 2017, 2018 and 2019.

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Exposure

The Group's foreign currency risk was not significant as at 31 December 2017 and 2018 as the Group did not have any significant monetary assets or liabilities that were denominated in currencies other than the functional currencies of the group entities. The Group's exposure to foreign currency risk as at 31 December 2019, expressed in RMB (in thousands), was as follows:

	<u>Cash and cash equivalents</u>	<u>Trade receivables</u>	<u>Other receivables</u>	<u>Accounts payable</u>	<u>Other payables</u>
31 December 2019					
USD	12,586	28	–	–	(26,003)
HKD	24,181	7,167	146	(13,777)	(2,676)

Sensitivity

	<u>Impact on post tax profit</u>
	<u>For year ended 31 December 2019</u>
	<u>RMB'000</u>
USD/RMB exchange rate — increase 10%	31
USD/RMB exchange rate — decrease 10%	(31)
HKD/RMB exchange rate — increase 10%	(1,190)
HKD/RMB exchange rate — decrease 10%	1,190

(b) Credit risk

Credit risk arises from cash and cash equivalent, financial assets at FVPL as well as credit exposures to wholesale and retail customers including outstanding trade and other receivables.

(i) Risk management

Credit risk is managed on group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. The Group's credit sales are only made to customers with appropriate credit history. The Group has no significant concentration of credit risk. The carrying amounts of cash and bank balances, financial assets at FVPL, trade receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

As at 31 December 2017, 2018 and 2019, all the bank deposits and financial assets at FVPL, which are investments in wealth management products ("WMPs"), are deposited in or managed by state-owned or reputable national commercial banks which are all high-credit-quality financial institutions without significant credit risk. The WMPs invested by the Group are short-term investments which are redeemable within six months. The expected rate of return are provided and periodically updated by the banks on a quarterly or more frequent basis. Hence, management considers that there is no significant credit risk for the WMPs invested by the Group.

For retail and online sales, trade receivables mainly include credit card receivables, and receivables from third-party payment platform receivables. The management of the Group believes the credit risk is limited because the deposits in transit was held by high-credit-quality financial institutions or other third parties. Trade receivables from retail and online sales were not significant, so the credit risk inherent in such trade receivables is low.

For trade receivables due from wholesalers, the management assess the credit risk quality of the wholesalers based on the their financial positions, past experience, expected loss rates based on the payment profiles of sales over the Track Record Period, and other factors. The Group has policies in place to ensure credit terms are granted to reliable wholesalers. The Group's historical experience in collection

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of receivables falls within recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made.

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model.

- trade receivables, and
- other receivables

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all account receivables. To measure the expected credit losses, account receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 31 December 2017, 2018 and 2019 was determined as follows for trade receivables:

31 December 2017

Provision on collective basis	0-90 days	91-180 days	Over 180 days	Total
Lifetime expected credit loss rate	0.33%	7.14%	100.00%	0.67%
Gross carrying amount	5,442	70	14	5,526
Loss allowance	(18)	(5)	(14)	(37)

31 December 2018

Provision on collective basis	0-90 days	91-180 days	Over 180 days	Total
Lifetime expected credit loss rate	0.12%	6.76%	100.00%	1.45%
Gross carrying amount	13,759	592	154	14,505
Loss allowance	(16)	(40)	(154)	(210)

31 December 2019

Provision on collective basis	0-90 days	91-180 days	Over 180 days	Total
Lifetime expected credit loss rate	0.14%	6.47%	100.00%	6.04%
Gross carrying amount	42,224	3,711	2,634	48,569
Loss allowance	(59)	(240)	(2,634)	(2,933)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 180 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

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Other receivables

Other receivables mainly include deposits for lease. The management of the Group makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). This is similar to the approach used for the purposes of measuring Expected Credit Loss ("ECL") under IFRS 9.

- Other receivables that are not credit-impaired on initial recognition are classified in 'Stage 1' and have their credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.
- If a significant increase in credit risk (specifically, when the debtor is more than 1 day past due on its contractual payments) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.
- If the financial instrument is credit-impaired (specifically, when the debtor is more than 90 days past due on its contractual payments), the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis.

In view of the history of cooperation with the debtors and collection from them, the management of the Group believes that all of the Group's other receivables are classified in Stage 1 as at 31 December 2017, 2018 and 2019, and the credit risk inherent in the Group's outstanding other receivables is not significant.

Net impairment losses on financial assets recognised in profit or loss

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Impairment losses:			
Impairment losses on trade receivables	35	173	2,723
Impairment losses on other receivables	529	97	363
Reversal of previous impairment losses on trade receivables	(220)	–	–
Net impairment losses on financial assets	344	270	3,086

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

Cash flow forecasting is performed by the finance department of the Group. The finance department of the Group monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs as well as the liabilities to other parties.

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The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2017				
Trade payables	7,132	–	–	7,132
Other payables (excluding wages, salaries and other employee benefit and tax payables)	7,219	–	–	7,219
Lease liabilities	20,667	13,770	6,450	40,887
Total	35,018	13,770	6,450	55,238
As at 31 December 2018				
Trade payables	32,633	–	–	32,633
Other payables (excluding wages, salaries and other employee benefit and tax payables)	29,467	3,804	–	33,271
Lease liabilities	42,661	27,442	9,011	79,114
Total	104,761	31,246	9,011	145,018
As at 31 December 2019				
Trade payables	64,583	–	–	64,583
Other payables (excluding wages, salaries and other employee benefit and tax payables)	78,576	1,318	–	79,894
Lease liabilities	98,576	70,142	24,474	193,192
Total	241,735	71,460	24,474	337,669

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners of the Group and to maintain an optimal capital structure to enhance owners' value in the long term.

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The Group monitors capital (including share capital and reserves) by regularly reviewing the gearing ratio, which is net debt divided by "Total equity" as shown in the consolidated balance sheet. Net debt is calculated as total debt, less cash and cash equivalents as per Note 33. As a part of this review, the Group considers the cost of capital and the risks associated with share capital, and believes the capital risk as low.

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Net debt/(cash) (Note 33(c))	25,140	(21,504)	(141,216)
Total equity	78,824	218,830	592,781
Gearing ratio	32%	n/a	n/a

As the Group's cash and cash equivalents exceeded total debt as at 31 December 2018 and 2019, the calculation of gearing ratio is not applicable.

3.3 Fair value estimation

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

(a) Financial assets and liabilities

(i) Fair value hierarchy

The Group analyses the financial instruments carried at fair value, by valuation method. The different level have been defined as follow:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(ii) Valuation techniques used to determine fair value

Specific valuation techniques used to value financial instruments include:

- discounted cash flow analysis, see Note 3.3 (a) (iii) and Note 3.3 (a) (iv) below:

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(iii) Fair value measurements using significant unobservable inputs (Level 3)

The following table presents the Group's assets that are measured at fair value as at 31 December 2018 and 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2018				
Financial assets at FVPL				
– Investment in WMPs	–	–	50,303	50,303
As at 31 December 2019				
Financial assets at FVPL				
– Investment in WMPs	–	–	50,000	50,000

There were no transfers among different categories during the Track Record Period.

The fair value assessment methods and related key assumptions and judgements adopted by the Group's management is income approach (specifically, discounted cash flow method): Uses valuation techniques to convert future amounts (specifically, cash flows based on the expected rate of return) to a present amount.

	Year ended 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance	5,000	–	50,303
Purchase of financial assets at FVPL	37,000	140,000	255,000
Fair value change on financial assets at FVPL (Note 7)	328	815	1,678
Proceeds from disposal of financial assets at FVPL	(42,328)	(90,512)	(256,981)
Ending balance	–	50,303	50,000

(iv) Valuation inputs and relationships to fair value

Description	<u>Fair value</u>			Significant unobservable inputs	<u>Range of inputs</u>			Relationship of unobservable inputs to fair value
	<u>As at 31 December</u>				<u>As at 31 December</u>			
	<u>2017</u>	<u>2018</u>	<u>2019</u>		<u>2017</u>	<u>2018</u>	<u>2019</u>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Investment in WMPs	–	50,303	50,000	Expected rate of return/discount rate	–	3.55%-4.00%	3.55%-3.65%	The higher the expected rate of return or discount rate, the increase or decrease of the fair value of the WMP

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As at 31 December 2018 and 2019, all of these WMPs are sponsored and managed by state-owned or reputable national commercial banks in the PRC. These WMPs are short-term investments which are denominated in RMB and redeemable within six months. The expected rate of return of the WMPs range from 3.55%-3.95% per annum as at 31 December 2018 and range from 3.55% to 3.65% per annum as at 31 December 2019, which are updated by the banks periodically on a quarterly or more frequent basis. Management uses the expected rate of return for approximation for both cash flow assessment and the discount rate in evaluating the fair values of the WMPs.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Income taxes and deferred tax*

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will be reflected in the income tax expense and deferred tax provisions in the period in which such determination is made. In addition, the realisation of future income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and tax loss carry-forwards. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on the income tax expenses.

(b) *Useful lives of licenses of character images and IP rights*

The Group has licenses of character images and IP rights that are primarily used to design and sell pop toys. The Group estimates the useful life of these licenses of character images and IP rights to be 2-10 years based on the contract and expected economic benefit. However, the actual useful life may be shorter or longer than management's estimate, depending on the market competition. Periodic review could result in a change in useful lives and therefore amortisation expense in future periods.

(c) *Useful lives of moulds*

The Group has moulds that are used to produce pop toys in OEM production. The Group estimates the useful life of these moulds to be 3-5 years based on historical experience and expected economic benefit. However, the actual useful life may be shorter or longer than management's estimate. Periodic review could result in a change in useful lives and therefore depreciation expense in future periods.

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5 REVENUE AND SEGMENT INFORMATION

Management determines the operating segments based on the reports reviewed by the CODM that are used to make strategic decisions. The Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the sales of pop toys to external customers, which are considered as one segment. The Group's principal market is the PRC and its sales to overseas customers contributed to less than 10% of the total revenues. Accordingly, no geographical information is presented.

Breakdown of revenue by business lines is as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Revenue from contracts with customers			
Revenue from retail store sales	101,005	248,257	739,690
Revenue from roboshop sales	5,568	86,431	248,554
Revenue from online sales	14,854	102,886	539,201
Revenue from wholesales	29,884	51,329	110,467
Revenue from conventions	6,763	25,608	45,522
Total	158,074	514,511	1,683,434

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Revenue			
Point-in-time	156,614	507,857	1,671,554
Over-time	1,460	6,654	11,880
Total	158,074	514,511	1,683,434

- (i) All original contracts are for periods of one year or less or are billed based on time incurred. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.
- (ii) During the year ended 31 December 2017, revenue from Nanjing Golden Eagle Pop Mart Co., Ltd ("Nanjing Pop Mart", a joint venture of the Group) was RMB26,172,000 (Note 35(a)), representing approximately 16.6% of the Group's total revenue. During the years ended 31 December 2018 and 2019, no revenue derived from transactions with a single customer represent 10% or more of the Group's total revenue.

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6 EXPENSES BY NATURE

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cost of goods	75,571	178,336	488,035
Employee benefit expenses (Note 32)	27,367	63,111	155,494
Depreciation of right-of-use assets (Note 14)	17,046	29,358	70,324
Advertising and marketing expenses	3,915	20,911	70,552
Expenses relating to short-term leases and variable leases	8,411	19,888	55,208
Design and license fees	2,207	14,527	48,406
Transportation and logistics expenses	979	5,592	39,325
Depreciation on property, plant and equipment (Note 12)	5,677	8,739	29,580
E-commerce platform service charges	901	6,396	28,841
Commissions to roboshop partners	54	7,989	19,116
Taxes and surcharges	1,656	5,837	16,400
[REDACTED] expenses	–	–	16,351
Amortisation of intangible assets (Note 13)	779	4,295	8,799
Auditor's remuneration	538	57	–
Impairment of property, plant and equipment and intangible assets	–	–	2,644
Impairment of inventory	57	200	1,710
Others	9,606	20,570	48,602
Total	154,764	385,806	1,099,387

7 OTHER INCOME AND OTHER GAINS/(LOSSES)-NET

(a) Other income

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
License fee income	745	2,874	12,103
Government grants	17	2,218	4,417
Others	600	392	493
Total	1,362	5,484	17,013

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(b) Other gains/(losses)-net

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Foreign exchange gains or loss	–	2	(1,226)
Fair value change on financial assets at FVPL	328	815	1,678
Loss on disposal of property, plant and equipment	(266)	(244)	(253)
Gain on disposal of right-of-use assets	–	–	386
Others	(11)	(878)	235
Total	51	(305)	820

8 FINANCE EXPENSES – NET

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Finance income			
– Interest income	(9)	(142)	(424)
Finance expenses			
– Interest expenses on lease liabilities	1,764	2,455	5,813
Finance expenses – net	1,755	2,313	5,389

9 INCOME TAX EXPENSE

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Current income tax			
– Hong Kong profits tax	–	–	3,091
– The PRC corporate income tax	304	24,936	152,619
Deferred income tax (Note 17)	400	7,803	(8,453)
Income tax expense	704	32,739	147,257

(a) Cayman Island and BVI Income Tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and is not subject to the Cayman Island income tax. The group entity established under the International Business Companies Act of BVI are exempted from BVI income tax.

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(b) Hong Kong Profits Tax

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entities will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of the group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate 16.5%. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the years ended 31 December 2017 and 2018.

(c) PRC Corporated Income Tax ("CIT")

The income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profit for each of the years during the Track Record Period, based on the existing legislation, interpretations and practices in respect thereof.

A group entity has been granted certain tax concessions to small scale entities by tax authorities in the PRC whereby the subsidiaries operating in the respective jurisdictions are entitled to tax concessions.

(d) PRC Withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profit derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be 5%.

As of 31 December 2017, 2018 and 2019, the aggregate undistributed earnings of the Group's subsidiaries incorporated in the PRC are RMB2,935,000, RMB92,030,000 and RMB424,149,000. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future, and that the Company has the ability to control the timing of the distribution from these subsidiaries. Accordingly, despite an assessable temporary difference on such retained earnings exists, no deferred income tax liability has been recognised in the Historical Financial Information.

The reconciliation between the Group's actual tax charges and the amount which is calculated based on the statutory income tax rate of 25% in the PRC is as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Profit before income tax	2,273	132,260	598,375
Tax calculated at applicable tax rates of 25%	568	33,065	149,594
Tax loss for which no deferred income tax asset is recognised	–	–	271
Share of loss/(profit) of joint ventures	88	(240)	(1,243)
Expenses not deductible for taxation purposes	39	44	228
Impact of different tax rate	9	(130)	(1,593)
Taxation charge	704	32,739	147,257

10 DIVIDENDS

On 16 May 2019, Beijing Pop Mart declared a final dividend of RMB80,000,000 to the then shareholders for the year ended 31 December 2018, which was paid in May and June 2019.

Other than the above, no dividend was paid or declared by the Company since its incorporation or by any group entity for the Track Record Period.

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11 EARNINGS PER SHARE

Basic earnings per share during the Track Record Period is calculated by dividing the profit of the Group attributable to the owners of the Company by the weighted average number of the ordinary shares in issue. In determining the weighted average number of ordinary shares in issue during the Track Record Period, 115,456,278 shares of the Company, which were issued and allotted by the Company in connection with Reorganisation (Note 1.2(v)), has been treated as if these shares were issued since 1 January 2017.

	Year ended 31 December		
	2017	2018	2019
Profit attributable to the owners of the Company (RMB'000)	1,569	99,521	451,118
Weighted average number of ordinary shares in issue (Thousands)	115,456	115,456	115,456
Basic earnings per share (expressed in RMB per share)	0.01	0.86	3.91

Diluted earnings per share is calculated by adjusting the weighted average number of shares of outstanding assume the conversion of all dilutive potential shares. The fully diluted earnings per share for the Track Record Period is the same as the basic earnings per share as there is no dilutive potential shares during the Track Record Period.

The basic and diluted earnings per share as presented above has not taken into account the proposed capitalisation issue of [1,099,292,778] shares pursuant to the shareholders' resolution dated [date] because the proposed capitalisation issue has not become effective as of the date of this report.

12 PROPERTY, PLANT AND EQUIPMENT

	Roboshop machines	Moulds	Equipment and others	Leasehold improvement	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2017					
Cost	–	522	1,377	9,030	10,929
Accumulated depreciation	–	(38)	(370)	(3,809)	(4,217)
Net book amount	–	484	1,007	5,221	6,712
Year ended 31 December 2017					
Opening net book amount	–	484	1,007	5,221	6,712
Additions	2,977	2,146	596	5,686	11,405
Depreciation charge	(8)	(280)	(311)	(5,078)	(5,677)
Disposal	–	(143)	(124)	(77)	(344)
Closing net book amount	2,969	2,207	1,168	5,752	12,096
As at 31 December 2017					
Cost	2,977	2,465	1,748	14,450	21,640
Accumulated depreciation	(8)	(258)	(580)	(8,698)	(9,544)
Net book amount	2,969	2,207	1,168	5,752	12,096

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	Roboshop machines	Moulds	Equipment and others	Leasehold improvement	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2018					
Opening net book amount	2,969	2,207	1,168	5,752	12,096
Additions	12,055	4,859	3,260	12,587	32,761
Depreciation charge	(975)	(1,018)	(518)	(6,228)	(8,739)
Disposal	–	(48)	(27)	(169)	(244)
Closing net book amount	14,049	6,000	3,883	11,942	35,874
As at 31 December 2018					
Cost	15,032	7,208	4,956	26,673	53,869
Accumulated depreciation	(983)	(1,208)	(1,073)	(14,731)	(17,995)
Net book amount	14,049	6,000	3,883	11,942	35,874
Year ended 31 December 2019					
Opening net book amount	14,049	6,000	3,883	11,942	35,874
Additions	27,660	28,540	9,136	34,539	99,875
Depreciation charge	(3,908)	(8,551)	(1,587)	(15,534)	(29,580)
Impairment	–	(2,357)	–	–	(2,357)
Disposal	(131)	–	(122)	–	(253)
Closing net book amount	37,670	23,632	11,310	30,947	103,559
As at 31 December 2019					
Cost	42,429	35,747	13,824	61,212	153,212
Accumulated depreciation	(4,759)	(9,758)	(2,514)	(30,265)	(47,296)
Impairment	–	(2,357)	–	–	(2,357)
Net book amount	37,670	23,632	11,310	30,947	103,559

- (a) Depreciation on property, plant and equipment has been charged to the consolidated statements of comprehensive income as follows:

	Year ended 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales	280	1,018	8,551
Distribution and selling expenses	5,067	5,968	15,511
General and administrative expenses	330	1,753	5,518
	5,677	8,739	29,580

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13 INTANGIBLE ASSETS

	Licenses of character images	IP rights	Software	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2017				
Cost	1,255	–	148	1,403
Accumulated amortisation	(397)	–	(30)	(427)
Net book amount	858	–	118	976
Year ended 31 December 2017				
Opening net book amount	858	–	118	976
Additions	1,215	–	1,168	2,383
Amortisation charge	(723)	–	(56)	(779)
Closing net book amount	1,350	–	1,230	2,580
At 31 December 2017				
Cost	2,470	–	1,316	3,786
Accumulated amortisation	(1,120)	–	(86)	(1,206)
Closing net book amount	1,350	–	1,230	2,580
Year ended 31 December 2018				
Opening net book amount	1,350	–	1,230	2,580
Additions	13,202	5,561	593	19,356
Amortisation charge	(3,698)	(278)	(319)	(4,295)
Closing net book amount	10,854	5,283	1,504	17,641
At 31 December 2018				
Cost	15,672	5,561	1,909	23,142
Accumulated amortisation	(4,818)	(278)	(405)	(5,501)
Closing net book amount	10,854	5,283	1,504	17,641
Year ended 31 December 2019				
Opening net book amount	10,854	5,283	1,504	17,641
Additions	9,388	–	677	10,065
Amortisation charge	(7,736)	(556)	(507)	(8,799)
Impairment	(287)	–	–	(287)
Closing net book amount	12,219	4,727	1,674	18,620

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	Licenses of character images	IP rights	Software	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2019				
Cost	25,060	5,561	2,586	33,207
Accumulated amortisation	(12,554)	(834)	(912)	(14,300)
Impairment	(287)	–	–	(287)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Closing net book amount	<u>12,219</u>	<u>4,727</u>	<u>1,674</u>	<u>18,620</u>

Amortisation of intangible assets has been charged to the consolidated statements of comprehensive income as follows:

	Year ended 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales	723	3,698	7,736
Distribution and selling expenses	–	278	556
General and administrative expenses	56	319	507
	<u> </u>	<u> </u>	<u> </u>
	<u>779</u>	<u>4,295</u>	<u>8,799</u>

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14 RIGHT-OF-USE ASSETS

	Offices, warehouses and retail stores
	<i>RMB'000</i>
At 1 January 2017	
Cost	46,941
Accumulated depreciation	<u>(17,726)</u>
Net book amount	<u>29,215</u>
Year ended 31 December 2017	
Opening net book amount	29,215
Additions	22,909
Depreciation charge	<u>(17,046)</u>
Closing net book amount	<u>35,078</u>
At 31 December 2017	
Cost	69,850
Accumulated depreciation	<u>(34,772)</u>
Closing net book amount	<u>35,078</u>
Year ended 31 December 2018	
Opening net book amount	35,078
Additions	65,096
Depreciation charge	<u>(29,358)</u>
Closing net book amount	<u>70,816</u>
At 31 December 2018	
Cost	134,946
Accumulated depreciation	<u>(64,130)</u>
Closing net book amount	<u>70,816</u>
Year ended 31 December 2019	
Opening net book amount	70,816
Additions	183,534
Depreciation charge	(70,324)
Disposal	<u>(5,088)</u>
Closing net book amount	<u>178,938</u>
At 31 December 2019	
Cost	306,204
Accumulated depreciation	<u>(127,266)</u>
Closing net book amount	<u>178,938</u>

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The amounts recognised in the consolidated statements of comprehensive income and cash flows are as follows:

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation	17,046	29,358	70,324
Interest expenses	1,764	2,455	5,813
Expense relating to short-term leases	2,007	3,045	5,631
Expense relating to variable lease payments not included in lease liabilities (included in distribution and selling expenses)	6,404	16,843	49,577
The cash outflow for leases as operating activities	8,972	14,104	50,519
The cash outflow for leases as financing activities	17,602	30,985	75,773

A 10% increase in sales across all stores in the Group with such variable lease contracts would increase total lease payments by approximately RMB1,113,000, RMB3,670,000 and RMB9,406,000, respectively, for the years ended 31 December 2017, 2018 and 2019.

15 INVESTMENT IN SUBSIDIARIES

	As at 31 December
	2019
	<i>RMB'000</i>
Investment in subsidiaries	7,381,806

The Company's investment in subsidiaries was USD1,056,141,000 (equivalent to approximately RMB7,381,806,000) as at 31 December 2019.

16 INVESTMENT IN JOINT VENTURES

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance	11,190	10,839	11,798
Additions	–	–	5,333
Share of (loss)/profit for the year	(351)	959	4,970
Ending balance	10,839	11,798	22,101

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Details of the Group's joint ventures as at 31 December 2017, 2018 and 2019 are as follows:

Company name	Place of business/ country of incorporation	% of ownership interest	Principal activities	Carrying amounts of the investment		
				2017	2018	2019
Nanjing Pop Mart (a)	The PRC	52%	Sales of pop toys	10,839	11,798	17,140
Pop Mart Korea (a)(b)	Seoul, South Korea	60%	Sales of pop toys	–	–	2,374
POP MART SOUTH ASIA PTE. LTD. ("Singapore Pop")(c)	Singapore	50%	Sales of pop toys	–	–	2,587

- (a) Although the Group holds more than 50% of the equity shares of these two investees, the investments in these entities are accounted for as investments in joint venture as unanimous consent is required from all shareholders of these entities for approving certain relevant activities according to the respective shareholders' agreements of these entities.
- (b) On 12 April 2019, Pop Mart Korea was established by the Group and a third party investor. The Group's total commitment to Pop Mart Korea was KRW 450,000,000, all of which had been paid as at 31 December 2019.
- (c) On 18 June 2019, Singapore Pop was established by the Group and a third party investor. The Group's total commitment to Singapore Pop was SGD 500,000, which had not been paid as at 31 December 2019 and was recorded in other payables in the consolidated balance sheet (Note 29).

(i) **Summarised balance sheets of a material joint venture**

	Nanjing Pop Mart		
	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets			
Cash and cash equivalents	938	7,455	20,609
Other current assets	11,469	10,958	14,337
Total current assets	12,407	18,413	34,946
Non-current assets	12,540	10,450	14,571
Current liabilities			
Financial liabilities	2,429	4,147	8,294
Other current liabilities	1,675	3,738	8,280
Total current liabilities	4,104	7,885	16,574
Non-current liabilities	7,785	6,076	7,768
Net assets	13,058	14,902	25,175

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Reconciliation of above summarised financial information presented to carrying amounts of the Group's share of interests in the joint venture:

	Nanjing Pop Mart		
	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening net assets	13,733	13,058	14,902
(Loss)/profit for the year	(675)	1,844	10,273
Other comprehensive income	–	–	–
Dividends paid or declared	–	–	–
Closing net assets	13,058	14,902	25,175
Group's share in %	52%	52%	52%
Group's share in RMB	6,790	7,749	13,091
Goodwill	4,049	4,049	4,049
Carrying amount	10,839	11,798	17,140

(ii) **Summarised statements of comprehensive income of a material joint venture**

	Nanjing Pop Mart		
	Year ended 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	44,994	68,733	112,995
Depreciation and amortisation	(6,340)	(7,571)	(6,165)
Interest income	4	11	27
Other cost and expenses	(39,338)	(57,970)	(93,409)
Other income	109	26	276
Other losses, net	(430)	(1,022)	(6)
Income tax credit/(expense)	326	(363)	(3,445)
(Loss)/profit and total comprehensive (loss)/income for the year	(675)	1,844	10,273
Dividends received from joint venture	–	–	–

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The Movement is deferred income tax assets and liabilities during the period, without taking into consideration the offsetting of the balances within the same tax jurisdiction, is as following:

The movement in deferred income tax asset during the Track Record Period is as follows:

	Impairment loss	Tax losses	Lease liabilities	Accrued expenses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2017	55	14,889	7,915	190	23,049
Credited/(debited) to the consolidated statements of comprehensive income	100	(1,169)	1,634	212	777
As at 31 December 2017	155	13,720	9,549	402	23,826
Credited/(debited) to the consolidated statements of comprehensive income	117	(9,391)	9,190	901	817
As at 31 December 2018	272	4,329	18,739	1,303	24,643
Credited/(debited) to the consolidated statements of comprehensive income	1,860	2,337	27,110	2,608	33,915
As at 31 December 2019	2,132	6,666	45,849	3,911	58,558

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The movement in deferred income tax liabilities during the Track Record Period is as follows:

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The balance comprises temporary differences attributable to:			
Right of use assets	8,257	16,877	42,339
Set off of deferred tax liabilities in relation to right of use assets	(8,257)	(16,877)	(42,339)
Net deferred tax liabilities	–	–	–
			Right-of-use assets
			<i>RMB'000</i>
As at 1 January 2017			7,080
Debited to the consolidated statements of comprehensive income			1,177
As at 31 December 2017			8,257
Debited to the consolidated statements of comprehensive income			8,620
As at 31 December 2018			16,877
Debited to the consolidated statements of comprehensive income			25,462
As at 31 December 2019			42,339

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18 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets at amortised cost			
Trade receivables	5,489	14,295	45,636
Other receivables	11,279	23,759	59,696
Cash and cash equivalents	13,592	96,802	324,614
Financial assets at FVPL	–	50,303	50,000
Total	30,360	185,159	479,946
Financial liabilities at amortised cost			
Trade payables	7,132	32,633	64,583
Other payables (excluding wages, salaries and other employee benefit and tax payables)	7,219	33,271	79,894
Lease liabilities	38,732	75,298	183,398
Total	53,083	141,202	327,875

19 TRADE RECEIVABLES

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables (a)			
– Third parties	3,724	12,749	43,817
– Related parties	1,802	1,756	4,752
	5,526	14,505	48,569
Less: provision for impairment (b)	(37)	(210)	(2,933)
Total trade receivables	5,489	14,295	45,636

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- (a) For trade receivables from retail store sales, roboshop sales and online sales, the amounts are usually settled in cash, by credit/debit cards or through online payment platforms. For wholesale transactions, trade receivables are settled within the credit terms as agreed in sales contracts. The majority of these wholesalers are with credit terms of 30 to 90 days. Certain customers with good history and long-term relationship are extended preferential credit terms exceeding 90 days.

An aging analysis of the trade receivables based on invoice date is as follows:

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	5,442	13,759	42,224
3 months to 6 months	70	592	3,711
Over 6 months	14	154	2,634
Total	5,526	14,505	48,569

- (b) The Group applies the IFRS 9 simplified approach to measure expected credit losses which use a life time expected loss allowance for all trade receivables. Note 3.1 provides for details about the calculation of the allowance.

Information about the impairment of trade receivables and the Group exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1.

- (c) Trade receivables are denominated in the following currencies:

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	5,489	14,295	38,441
HKD	–	–	7,167
USD	–	–	28
	5,489	14,295	45,636

- (d) All trade receivables' carrying amounts approximate fair values.

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20 OTHER RECEIVABLES

(a) Other receivables of the Group

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Deposits for lease	9,113	18,051	53,495
Capital injection receivables (Note 25)	–	–	4,568
Others	2,695	6,334	2,622
Less: allowance for impairment of other receivables	(529)	(626)	(989)
Total	11,279	23,759	59,696

(b) Other receivables of the Company

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Capital injection receivables (Note 25)	–	–	4,568

(c) As at 31 December 2017, 2018 and 2019, the fair values of other receivables approximated their carrying amounts.

21 INVENTORIES

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Merchandise (a)	15,597	29,318	98,269
Less: provision for impairment (b)	(57)	(257)	(1,967)
Total	15,540	29,061	96,302

(a) The cost of goods recognised as cost of sales amounted to approximately RMB75,571,000, RMB178,336,000 and RMB488,035,000 for the years ended 31 December 2017, 2018 and 2019 respectively.

(b) Provision for impairment was recognised for the amount by which the carrying amount of inventories exceeds its net realisable value, and was recorded in "cost of sales" in the consolidated statement of comprehensive income. The provision for impairment of inventory amount to RMB57,000, RMB200,000 and RMB1,710,000 for the years ended 31 December 2017, 2018 and 2019.

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22 PREPAYMENTS AND OTHER CURRENT ASSETS

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Prepayments for inventories	13,458	25,676	98,240
Prepayments for design fees	1,499	6,566	20,499
Prepayment for property, plant and equipment	316	3,903	10,443
Prepayments for short-term leases	2,117	1,461	3,055
Prepayment for [REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]
Deductible value-added input tax	2,190	1,188	1,050
Others	637	5,886	14,979
	20,217	44,680	150,796
Less: non-current portion	(316)	(3,903)	(10,443)
Prepayments and other current assets-current portion	19,901	40,777	140,353

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Investments in WMPs issued by reputable commercial banks	–	50,303	50,000

(a) Amounts recognised in profit or loss

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Fair value gains from financial assets at FVPL (Note 7)	328	815	1,678

- (b) Investments in WMPs issued by reputable commercial banks are dominated in RMB, with expected rates of return ranging from 3.28% to 4.00% and 3.55% to 3.65% per annum as at 31 December 2018 and 2019. The return on all of these WMPs are not guaranteed, hence their contractual cash flows do not qualify for solely payment of principal and interest. Therefore they are measured at FVPL. None of these investments are past due or impaired.

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24 CASH AND CASH EQUIVALENTS

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Term deposits with initial term within 3 months	–	30,000	–
Cash at bank	13,592	66,802	324,614
Total cash and cash equivalents	13,592	96,802	324,614

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	13,530	96,749	287,847
USD	–	–	12,586
HKD	62	53	24,181
	13,592	96,802	324,614

Cash and cash equivalents of the Company

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at bank – denominated in USD	–	–	12,302

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

25 SHARE CAPITAL

The Company was incorporated on 9 May 2019 with an authorized share capital of US\$50,000 divided into 500,000,000 ordinary shares of US\$0.0001 each.

	Number of shares	Share capital <i>RMB'000</i>
At 9 May 2019 (date of incorporation)	–	–
Issuance of shares in connection with the Reorganisation (Note 1.2(v)) to the shareholders of the Company	115,456,278	82
At 31 December 2019	115,456,278	82

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As disclosed in Note 1.2(v), from May 2019 to September 2019, the Company issued an aggregated of 115,456,278 ordinary shares to the shareholders for a total consideration of USD24,516,000 (equivalent to approximately RMB173,122,000), including USD12,000 (equivalent to approximately RMB82,000) recorded in share capital and USD24,504,000 (equivalent to approximately RMB173,040,000) in share premium respectively.

As at 31 December 2019, the amount of USD 655,000 (equivalent to approximately RMB4,568,000) had not been paid by the respective shareholders and was recorded in other receivables in the consolidated and company balance sheet (Note 20).

26 OTHER RESERVES

(a) Other reserves movement of the Group

	Share premium	Capital reserves	Statutory reserves	Translation reserves	Share- based payment reserves	Shares held for share award scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2017	-	76,179	-	-	8	(400)	75,787
Share-based compensation expenses (Note 27)	-	-	-	-	102	-	102
Repurchase obligation in relation to unvested shares under the Share Award Scheme (Note 27)	-	2,008	-	-	-	(2,008)	-
Balance at 31 December 2017	-	78,187	-	-	110	(2,408)	75,889
As at 1 January 2018	-	78,187	-	-	110	(2,408)	75,889
Profit appropriation to statutory reserves (i)	-	-	10,426	-	-	-	10,426
Capital injection from a then shareholder of Beijing Pop Mart (ii)	-	39,703	-	-	-	-	39,703
Share-based compensation expenses (Note 27)	-	-	-	-	782	-	782
Repurchase obligation in relation to unvested shares under the Share Award Scheme (Note 27)	-	2,723	-	-	-	(2,723)	-
Shares lapsed under the Share Award Scheme	-	(500)	-	-	-	500	-
Balance at 31 December 2018	-	120,113	10,426	-	892	(4,631)	126,800

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	Share premium	Capital reserves	Statutory reserves	Translation reserves	Share-based payment reserves	Shares held for share award scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2019	-	120,113	10,426	-	892	(4,631)	126,800
Currency translation difference	-	-	-	903	-	-	903
Profit appropriation to statutory reserves	-	-	40,080	-	-	-	40,080
Capital injection from the shareholders of the Company (Note 25)	173,040	-	-	-	-	-	173,040
Deemed distribution to the then shareholders of Beijing Pop Mart to give effect to the Reorganisation (Note 1,2(v))	7,327,341	(7,500,000)	-	-	-	-	(172,659)
Share-based compensation expenses (Note 27)	-	-	-	-	1,467	-	1,467
Shares vested under the Share Award Scheme	-	(2,272)	-	-	(2,359)	4,631	-
Balance at 31 December 2019	7,500,381	(7,382,159)	50,506	903	-	-	169,631

(i) Statutory reserves

In accordance with the relevant laws and regulations of the PRC, when distributing the net profit of each year, the Group shall set aside 10% of its profit after income tax (based on the PRC statutory financial statements and after offsetting accumulated losses from prior years) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the paid-in capital).

Statutory reserve can be used to make up for the loss or increase the paid-in capital after approval from the appropriate authorities.

(ii) In January 2018, a then shareholder of Beijing Pop Mart injected capital of RMB39,703,000 into Beijing Pop Mart which was recorded in capital reserves.

(b) Other reserves movement of the Company

	Share premium	Translation reserves	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2019	-	-	-
Currency translation difference	-	(118,657)	(118,657)
Capital injection from the shareholders of the Company (Note 25)	173,040	-	173,040
Deemed distribution to the then shareholders for purchasing of the [REDACTED] Business	7,327,341	-	7,327,341
Balance at 31 December 2019	7,500,381	(118,657)	7,381,724

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27 SHARE-BASED COMPENSATION

(a) Share Award Scheme

For the purpose of the share award scheme ("Share Award Scheme"), Beijing Pop Mart Investment Enterprise (L.P.) ("Pop Mart Partnership") was established as a limited partnership in the PRC on 29 October 2015. The objective of the Share Award Scheme is to encourage and retain selected grantees including directors and employees of the Group, to work with the Group and to provide additional incentive for them to enhance performance goals and to enable the Group to recruit high-calibre employees and attract human resources that are valuable to the Group.

The general partner of Pop Mart Partnership is Mr. Wang Ning and each of the selected grantees is a limited partner. The relevant activities of Pop Mart Partnership (such as acquiring and holding shares under the Share Award Scheme during the vesting period, and transfer the awarded shares to employees on vesting) are conducted on behalf of the Group and for the benefit of the Group's employees. The Group is able to direct the relevant activities of Pop Mart Partnership and benefit from such activities. As a result, Pop Mart Partnership is consolidated in the Group's financial statements.

For the purpose of granting awarded shares to selected grantees, Pop Mart Partnership either makes capital injection into Beijing Pop Mart or purchases shares of Beijing Pop Mart from other shareholders with funds contributed by its general partner and limited partners. Upon granting of awarded shares, the selected grantees are entitled to subscribe for the respective equity interest in Pop Mart Partnership at the price specified in the contracts (the "Subscription Price"). If an employee leaves the Group during the vesting period, the Group has an obligation to repurchase the unvested shares and can reallocate such shares to other employees.

The awarded shares are recognised by the Group as follows:

- (i) The fair value of awarded shares, based on the difference between the market value of the shares of Beijing Pop Mart on the grant date and the Subscription Price, is charged as employee benefit expenses in the consolidated statements of comprehensive income over the respective vesting periods of 36 months since the grant date of the awarded shares; and
- (ii) To reflect the repurchase obligation in relation to unvested shares, the Group recognise a debit to "Shares held for Share Award Scheme" at the amount of the Subscription Price for each of the awarded shares on the grant date, which is transferred to capital reserves upon vesting of the respective shares.

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During the years end 31 December 2017, 2018 and 2019, the fair value of awarded shares recognised in the statements of comprehensive income is RMB102,000, RMB782,000 and RMB1,467,000 respectively. Movements in the awarded shares are as follow:

	Years ended at 31 December					
	2017		2018		2019	
	Average fair value per share (RMB)	Number of shares (Thousands)	Average fair value per share (RMB)	Number of shares (Thousands)	Average fair value per share (RMB)	Number of shares (Thousands)
Opening balance	4.84	33	5.05	204	5.77	357
Granted during the year	5.09	171	6.90	196	–	–
Lapsed during the year	–	–	7.52	(43)	–	–
Vested during the year	–	–	–	–	5.77	(357)
Ending balance	5.05	204	5.77	357	–	–

28 TRADE PAYABLES

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Trade payables	7,132	32,633	64,583

The credit terms of trade payables granted by the suppliers are usually current to 180 days. As at 31 December 2017, 2018 and 2019, the aging analysis of the trade payables based on invoice date were as follow:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Within 30 days	2,775	9,975	38,782
30 to 90 days	1,304	10,999	11,652
90 to 180 days	1,397	6,754	5,028
Over 180 days	1,656	4,905	9,121
	7,132	32,633	64,583

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29 OTHER PAYABLES AND ACCRUALS

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Wages, salaries and other employee benefits	5,135	12,284	31,968
Payables for short-term and variable rental expenses	782	4,631	11,854
Other tax payables	4,245	7,995	11,506
Accrual expenses	81	5,209	11,492
Deposit received in connection with the capital injection from a shareholder (i)	–	–	11,427
Payables to merchants on conventions	710	3,965	9,547
Deposits payable	1,450	6,650	8,020
Payables for purchasing the [REDACTED] Business (ii)	–	–	4,566
Payables for property, plant and equipment and intangible assets	530	5,212	4,059
Payables for investment in a joint venture (Note 16)	–	–	2,587
Others	3,666	7,604	16,342
Subtotal	16,599	53,550	123,368
Less: non-current portion	–	(3,804)	(1,318)
Current portion	16,599	49,746	122,050

Other payables and accruals of the Company

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposit received in connection with the capital injection from a shareholder (i)	–	–	11,427
Payables for purchasing the [REDACTED] Business (ii)	–	–	4,566
Payables to shareholders	–	–	875
	–	–	16,868

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Notes:

- (i) In September 2019, the Company received a deposit of USD1,646,000 (equivalent to approximately RMB11,427,000) from a third party which was paid on behalf of a shareholder in connection with the capital injection from the shareholder. The deposit has been repaid in full by the Company on 2 January 2020.
- (ii) As part of the Reorganisation (Note 1.2(v)), the Company acquired interests in Beijing Pop Mart from the then shareholders at the total cash consideration of RMB172,659,200. As at 31 December 2019, the amount of RMB4,566,000 had not been paid by the Company and was recorded in other payables in the consolidated and company balance sheet.
- (iii) As at 31 December 2017, 2018 and 2019, the carrying amounts of current portion of other payables are considered to approximate their fair values, due to their short-term nature.

30 CONTRACT LIABILITIES

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advance from customers	695	10,039	35,167

Revenue recognised in relation to contract liabilities

	Year ended 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Credited to the consolidated statements of comprehensive income	35	695	10,039

31 LEASE LIABILITIES

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Minimum lease payments due			
– Within 1 year	20,667	42,661	98,576
– Between 1 and 2 years	13,770	27,442	70,142
– Between 2 and 5 years	6,450	9,011	24,474
	40,887	79,114	193,192
Less: future finance charges	(2,155)	(3,816)	(9,794)
Present value of lease liabilities	38,732	75,298	183,398

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	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
– Within 1 year	19,296	40,011	92,586
– Between 1 and 2 years	13,180	26,447	66,750
– Between 2 and 5 years	6,256	8,840	24,062
	38,732	75,298	183,398

32 WAGES, SALARIES AND OTHER EMPLOYEE BENEFITS

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Wages and salaries	21,917	49,238	117,436
Social security costs and housing fund	3,937	9,477	27,034
Bonus	1,411	3,614	9,557
Share-based compensation expenses (Note 27)	102	782	1,467
	27,367	63,111	155,494

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	Director's fee	Salaries	Bonus	Contributions relating to social insurance, housing fund and retirement scheme	Share-based compensation expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors' remuneration during the year ended 31 December 2017 is as follows:						
Directors						
Mr. Wang Ning (i)	–	402	91	63	–	556
Mr. Si De (ii)	–	316	35	58	12	421
Ms. Yang Tao (i)	–	284	33	58	–	375
Ms. Liu Ran (i)	–	169	31	58	–	258
Mr. Tu Zheng (i)	–	–	–	–	–	–
Mr. He Yu (i)	–	–	–	–	–	–

Directors' remuneration during the year ended 31 December 2018 is as follows:

Directors						
Mr. Wang Ning (i)	–	598	81	75	–	754
Mr. Si De (ii)	–	393	50	90	134	667
Ms. Liu Ran (i)	–	384	59	88	44	575
Ms. Yang Tao (i)	–	417	59	90	–	566
Mr. Tu Zheng (i)	–	–	–	–	–	–
Mr. He Yu (i)	–	–	–	–	–	–

Directors' remuneration during the year ended 31 December 2019 is as follows:

Directors						
Mr. Wang Ning (i)	–	838	144	159	–	1141
Mr. Si De (ii)	–	764	149	144	292	1349
Ms. Liu Ran (i)	–	586	104	136	89	915
Ms. Yang Tao (i)	–	595	104	142	–	841
Mr. Tu Zheng (i)	–	–	–	–	–	–
Mr. He Yu (i)	–	–	–	–	–	–

(i) Mr. Wang Ning, Ms. Yang Tao, Ms. Liu Ran, Mr. Tu Zheng and Mr. He Yu were appointed as directors of the Company in May 2019.

(ii) Mr. Si De was appointed as director of the Company in June 2019.

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(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2017, 2018 and 2019 include one, two and two directors whose emoluments are reflected in the analysis presented above, respectively. The emoluments payable to the remaining four, three and three individuals during the Track Record Period, respectively, are as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Salaries	1,423	1,925	2,679
Bonus	187	418	742
Contributions relating to social insurance, housing fund and retirement scheme	231	311	437
Share-based compensation expenses	38	153	133
	1,879	2,807	3,991

The emoluments fell within the following bands:

Emolument bands (in HKD)	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
HKD0 to HKD1,000,000	4	1	–
HKD1,000,001 to HKD1,500,000	–	2	2
HKD1,500,001 to HKD2,000,000	–	–	1

(c) No director of the waived any emoluments and no emoluments were paid by the Group to any of the directors of the as an inducement to join or upon joining the Group or as a compensation for loss of office as director.

(d) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries undertaken.

(e) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the year.

(f) Consideration provided to third parties for making available directors' services

No payment was made to the former employer of directors for making available the services of them as a director of the Company.

(g) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the Track Record Period.

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(h) Directors' material interests in transactions, arrangements or contracts.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

33 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of profit before income tax to net cash flows generated from operations:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Profit before income tax	2,273	132,260	598,375
Adjustments for:			
Fair value gains from financial assets at FVPL	(328)	(815)	(1,678)
Share-based compensation expenses	102	782	1,467
Share of results of joint ventures	351	(959)	(4,970)
Depreciation on property, plant and equipment	5,677	8,739	29,580
Amortisation of intangible assets	779	4,295	8,799
Loss on disposal of property, plant and equipment	266	244	253
Gain on disposal of right-of-use assets	–	–	(386)
Depreciation of right-of-use assets	17,046	29,358	70,324
Net impairment losses on financial assets	344	270	3,086
Impairment losses on inventory	57	200	1,710
Impairment losses on property, plant and equipment	–	–	2,357
Impairment losses on intangible assets	–	–	287
Finance expense, net	1,755	2,313	5,389
Foreign exchange gains or loss	–	(2)	1,226
Changes in working capital:			
Inventories	(10,676)	(13,721)	(68,951)
Trade receivables	(3,362)	(8,979)	(34,063)
Other receivables	(7,572)	(12,577)	(31,731)
Prepayments and other current assets	(12,353)	(20,876)	(96,976)
Trade payables	8,973	25,501	31,950
Other payables	11,520	32,267	62,261
Contract liabilities	660	9,344	25,128
Cash generated from operations	15,512	187,644	603,437

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(b) Proceeds from disposal of property, plant and equipment:

	Year ended 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net book amount	344	244	253
Loss on disposal of property, plant and equipment	(266)	(244)	(253)
	78	–	–

(c) Net debt reconciliation

	As at 31 December		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	13,592	96,802	324,614
Lease liabilities - due within 1 year	(19,296)	(40,011)	(92,586)
Lease liabilities - due after 1 year	(19,436)	(35,287)	(90,812)
Net (debt)/cash	(25,140)	21,504	141,216

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	Cash and cash equivalents	Lease liabilities- due within 1 year	Lease liabilities- due after 1 year	Net debt
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net debt as at 1 January 2017	24,571	(10,935)	(20,726)	(7,090)
Cash flows	(10,979)	17,602	–	6,623
Additions	–	(7,599)	(15,310)	(22,909)
Accrual interest for lease liabilities	–	(1,764)	–	(1,764)
Other non-cash movement (i)	–	(16,600)	16,600	–
Net debt as at 31 December 2017	13,592	(19,296)	(19,436)	(25,140)
Cash flows	83,208	30,985	–	114,193
Additions	–	(9,234)	(55,862)	(65,096)
Accrual interest for lease liabilities	–	(2,455)	–	(2,455)
Other non-cash movement (i)	2	(40,011)	40,011	2
Net cash as at 31 December 2018	96,802	(40,011)	(35,287)	21,504
Cash flows	229,038	75,773	–	304,811
Additions	–	(29,949)	(153,585)	(183,534)
Accrual interest for lease liabilities	–	(5,813)	–	(5,813)
Disposal of right of use assets	–	–	5,474	5,474
Other non-cash movement (i)	(1,226)	(92,586)	92,586	(1,226)
Net cash as at 31 December 2019	324,614	(92,586)	(90,812)	141,216

(i) Other non-cash movement represents exchange gains or losses on cash and cash equivalents.

34 COMMITMENTS

(a) Lease commitment

As the adoption of IFRS 16 on 1 January 2017, only the lease commitment in relation to short-term lease, low-value lease and lease contracts signed with lease terms has not commenced are required to be disclosed. As at 31 December 2017, 2018 and 2019, the Group did not have significant lease commitment as described above.

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(b) Capital commitments

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Contractual but not provided for			
– Property, plant and equipment	276	1,509	10,407
– Acquiring an associate (i)	–	–	26,818
	276	1,509	37,225

- (i) On 27 December 2019, the Group entered into an investment agreement with a third party, pursuant to which the Group agrees to acquire 25% equity interest in a subsidiary of the third party at the total consideration of HKD30,000,000 (equivalent to approximately RMB26,818,000).

35 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are under common control or joint control in the controlling shareholder' families. Members of key management and their close family member of the Group are also considered as related parties.

Names of the major related parties	Nature of relationship
Mr. Wang Ning	Executive director of the Group
Pop Mart Partnership	Then Shareholder of Beijing Pop Mart
Hangzhou Heiyi Enterprise Management Partnership (LP)	Then Shareholder of Beijing Pop Mart
Hangzhou Heiyi Investment Limited Partnership (Limited Partnership)	Then Shareholder of Beijing Pop Mart
Tianjin Paqu Technology Centre (L.P.)	Company controlled by Mr. Wang Ning
Nanjing Pop Mart	Joint venture
Pop Mart Korea	Joint venture
Singapore Pop	Joint venture

Significant transactions with related parties:

(a) Sales of goods to

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Joint ventures	26,172	35,511	56,504

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(b) Dividends paid

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Mr.Wang Ning	–	–	37,994
Pop Mart Partnership	–	–	6,960
Hangzhou Heiyi Enterprise Management Partnership (L.P.)	–	–	3,599
Hangzhou Heiyi Investment Limited Partnership (L.P.)	–	–	1,139
Tianjin Paqu Technology Centre (L.P.)	–	–	3,515
	<u>–</u>	<u>–</u>	<u>53,207</u>

(c) Key management compensation

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Salaries and other benefits	4,089	6,848	12,104
Contributions to retirement benefits schemes	788	1,307	2,893
Bonus	549	1,122	2,559
Share-based compensation expenses	87	673	1,263
	<u>5,513</u>	<u>9,950</u>	<u>18,819</u>

(d) Significant year-end balances with related parties:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Assets			
Trade receivables			
A joint venture	<u>1,756</u>	<u>1,802</u>	<u>4,753</u>
Other receivables			
A joint venture	<u>–</u>	<u>569</u>	<u>542</u>
Liabilities			
Other payables			
Joint ventures	<u>–</u>	<u>501</u>	<u>2,594</u>

36 CONTINGENCY

As at 31 December 2017, 2018 and 2019, there were no significant contingencies items for the Group and the Company.

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37 SUBSEQUENT EVENT

(a) COVID-19

Since January 2020, some retail stores and roboshops had experienced temporary closure. As a result of the COVID-19 outbreak, conventions in 2020 has been postponed from April 2020 to November 2020, and the Group expects the number of participating artists and fans will decrease due to travel restrictions. Sales on the online channels have experienced growth during the COVID-19, despite the negative affects due to the difficulties in logistics and distributions. At the end of April, all retail stores and roboshops have re-opened and restrictions on logistics and distribution have gradually lifted. It is expected that the adverse effects of the COVID-19 outbreak on the Group's products sales will gradually subside. The Group has carried out necessary measures to control its costs and keep our staff in safety and will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operation results of the Group.

(b) Issuance of convertible redeemable preferred shares

Pursuant to the resolution of the extraordinary general meeting of the shareholders of the Company on 31 January 2020, the authorised share capital of the Company of USD50,000, which originally consists of 500,000,000 ordinary shares of USD0.0001 par value each, was varied and reclassified by dividing the 500,000,000 shares as follows:

- (i) 495,724,972 ordinary shares of USD0.0001 par value each, of which [111,791,968] shares are issued; and
- (ii) 4,275,028 preferred shares ("Series A Preferred Shares") re-designated and re-classified from ordinary shares at the par value of US\$0.0001 each on a one-for-one basis, which include 3,664,310 shares re-designated and re-classified from ordinary shares in issue held by certain shareholders (the "Sellers") and 610,718 shares re-designated and re-classified from authorised but unissued ordinary shares.

On 31 January 2020, the Company, the Sellers and LVC Amusement LP (the "Investor") entered into a share purchase agreement (the "Share Purchase Agreement"), pursuant to which the Sellers transferred 3,664,310 Series A Preferred Shares to the Investor, for a total consideration of USD75,000,000.

On the same date, the Company, together with certain subsidiaries, entered into a shares subscription agreement (the "Share Subscription Agreement") with the Investor, pursuant to which the Company allotted and issued 610,718 Series A Preferred Shares to the Investor, at a price of USD20.4677 per share for a total consideration of USD12,500,000.

Each Series A Preferred Share may, at the option of the holders, be converted at any time after the date of issue into ordinary shares of the Company at an initial conversion ratio of 1:1 and subject to adjustments. In addition, each Series A Preferred Share shall automatically be converted, based on the then-effective applicable conversion price, without the payment of any additional consideration, into ordinary shares of the Company upon the consummation of an [REDACTED].

Upon the earlier to occur of (i) the Company has not completed an [REDACTED] following the fifth (5th) anniversary of the date of issue, or (ii) any material breach of any transaction agreement by any group company or any founder party, any holder of Series A Preferred Shares or ordinary shares converted from Series A Preferred Shares may at any time require the Company to redeem any or all of the then outstanding equity securities held by such holders at the redemption price which represent the issue price, plus all declared or accrued but unpaid dividends and an interest at an annual compounded rate of 10% calculating from the date of issue to the payment date.

The Series A Preferred Shares will be classified as financial liabilities and recognised on the date of issue in the consolidated balance sheet. The Group is in the process of determining the fair value of the Series A Preferred Shares and assessing the related financial impacts to the consolidated financial statements.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or its subsidiaries in respect of any period subsequent to 31 December 2019 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Group or its subsidiaries in respect of any period subsequent to 31 December 2019.

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX III

SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

SUMMARY OF THE CONSTITUTION OF OUR COMPANY

1 Memorandum of Association

The Memorandum of Association of our Company was conditionally adopted on [●] 2020 and states, inter alia, that the liability of the members of our Company is limited, that the objects for which our Company is established are unrestricted and our Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed "Documents available for inspection".

2 Articles of Association

The Articles of Association of our Company were conditionally adopted on [●] 2020 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of our Company consists of ordinary shares. The capital of our Company at the date of adoption of the Articles is US\$500,000 divided into 5,000,000,000 shares of US\$0.0001 each.

2.2 Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in our Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by our Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of our Company or the holder thereof, liable to be redeemed.

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(b) Power to dispose of the assets of our Company or any subsidiary

The management of the business of our Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by our Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by our Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by our Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by our Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in our Company or any such subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

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(f) *Disclosure of interest in contracts with our Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with our Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of our Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to our Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by our Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of our Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

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SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

- (iv) any proposal or arrangement concerning the benefit of employees of our Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of our Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or our Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in our Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of our Company or in the discharge of their duties as Directors.

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SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of our Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of our Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of our Company and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

Our Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between our Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). Our Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed.

Our Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of our Company notice in writing by a member of our Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his

APPENDIX III

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intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to our Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of our Company under the Articles of Association.

At every annual general meeting of our Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. Our Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

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(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of our Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

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2.5 Alteration of capital

Our Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

Our Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to our Company for our Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares.

Our Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

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2.6 Special resolution – majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of our Company entitled to vote at a general meeting of our Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of our Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of our Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

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A member of our Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of our Company duly registered and who shall have paid all sums for the time being due from him payable to our Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of our Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of our Company or at any general meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of our Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

Our Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of our Company which carry the right of voting at general meetings of our Company. The written requisition shall be deposited at the principal office of our Company in Hong Kong or, in the event our Company ceases to have such a principal office, the registered office of our Company, specifying the objects of the meeting and signed by the requisitionist(s). If the Directors do not within 21 days

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from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by our Company.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of our Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of our Company, or any of them, shall be open to the inspection by members of our Company (other than officers of our Company) and no such member shall have any right of inspecting any accounts or books or documents of our Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by our Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of our Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of our Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of our Company for the period covered by the profit and loss account and the state of our Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of our Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by our Company as provided in the Articles of Association to every member of our Company and every holder of debentures of our Company provided that our Company shall not be required to send copies of those documents to any person of whose address our Company is not aware or to more than one of the joint holders of any shares or debentures.

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2.10 Auditors

Our Company shall at every annual general meeting appoint an auditor or auditors of our Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by our Company at the annual general meeting at which they are appointed provided that in respect of any particular year our Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of our Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from our Company).

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

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The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date. Where a general meeting is so postponed, our Company shall endeavour to cause a notice of such postponement to be placed on our Company's website and published on the Stock Exchange's website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of such meeting.

Where a general meeting is postponed:

- (a) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and
- (b) notice of the business to be transacted at the reconvened meeting shall not be required, nor shall any accompanying documents be required to be recirculated, provided that the business to be transacted at the reconvened meeting is the same as that set out in the notice of the original meeting circulated to the members of our Company.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of our Company in respect thereof. All instruments of transfer shall be retained by our Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which our Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with our Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

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- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of our Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to our Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with our Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of our Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 Power of our Company to purchase its own shares

Our Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of our Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.14 Power of any subsidiary of our Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

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2.15 Dividends and other methods of distribution

Subject to the Companies Law and the Articles of Association, our Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of our Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of our Company such interim dividends as appear to the Directors to be justified by the profits of our Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of our Company all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

No dividend shall carry interest against our Company.

Whenever the Directors or our Company in general meeting have resolved that a dividend be paid or declared on the share capital of our Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of our Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of our Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. Our Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of our Company that notwithstanding the foregoing a dividend may be satisfied wholly in

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the form of an allotment of shares credited as fully paid without offering any right to members of our Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of our Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of our Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of our Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to our Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Our Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, our Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to our Company.

The Directors may, with the sanction of the members of our Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of our Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of our Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

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2.16 Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of our Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of our Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of our Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of our Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member

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of our Company shall (subject to our Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of our Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of our Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to our Company all monies which at the date of forfeiture were payable by him to our Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such

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rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of our Company shall be kept in such manner as to show at all times the members of our Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of our Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of our Company present in person or by proxy shall be a quorum provided always that if our Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of our Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

The quorum for a separate general meeting of the holders of a separate class of shares of our Company is described in paragraph 2.4 above.

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2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

If our Company shall be wound up, and the assets available for distribution amongst the members of our Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of our Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of our Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If our Company shall be wound up, the liquidator may with the sanction of a special resolution of our Company and any other sanction required by the Companies Law, divide amongst the members of our Company in specie or kind the whole or any part of the assets of our Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of our Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of our Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of our Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

Our Company shall be entitled to sell any shares of a member of our Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) our Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, our Company has caused an advertisement to be published in the newspapers or subject to the

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Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

Our Company was incorporated in the Cayman Islands as a company with limited liability on 9 May 2019 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

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- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

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4 Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

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8 Accounting and Auditing Requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the Company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

A company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for a company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

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12 Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

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15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, our Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to our Company or its operations; and

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- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of our Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to our Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder (Hong Kong) LLP, our Company's legal advisers on Cayman Islands law, have sent to our Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

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A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of Our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on May 9, 2019. Our registered office is at the office of Sertus Incorporations (Cayman) Limited, Sertus Chambers, Governors Square, Suite # 5-204, 23 Lime Tree Bay Avenue, P.O. Box 2547, Grand Cayman, KY1-1104, Cayman Islands. Accordingly, our Company's corporate structure and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of our Articles of Association is set out in the section headed "Summary of the Articles of Association" in Appendix III to this Document.

Our principal place of business in Hong Kong is 14/F, Golden Centre, 188 Des Voeux Road Central, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on February 26, 2020 with the Registrar of Companies in Hong Kong. Ms. Li Ching Yi has been appointed as the authorized representative of our Company for the acceptance of service of process in Hong Kong. The address for service of process is 14/F, Golden Centre, 188 Des Voeux Road Central, Hong Kong.

Our Company's head office is located at Floor 36 & 37, Block A, Puxiang Center, Hongtai East Street, Dawangjing Technology Business Park, Chaoyang District, Beijing, PRC.

2. Changes in the Share Capital

As of the date of incorporation of our Company, our authorized share capital was US\$50,000, divided into 500,000,000 shares of a nominal or par value of US\$0.0001.

As part of the Reorganization, we implemented the following changes in our Company's issued share capital:

- (a) On May 9, 2019, our Company allotted ordinary Shares with a par value of US\$0.0001 each in the following manner:
 - i. 1 ordinary Share to Sertus Nominees (Cayman) Limited;
 - ii. 54,833,988 ordinary Shares to GWF Holding (formerly known as Grant Wang Holding Limited).
- (b) On September 11, 2019, our Company allotted ordinary Shares with a par value of US\$0.0001 each in the following manner:
 - i. 5,044,198 ordinary Shares to Maxtin Holdings Limited;
 - ii. 2,050,314 ordinary Shares to Chuang Ding Holding Limited;
 - iii. 1,110,648 ordinary Shares to Sidsi Holding Limited;

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- iv. 577,279 ordinary Shares to Kenny Wong Holding Limited;
 - v. 1,731,847 ordinary Shares to Wong Shun Ming Holding Limited;
 - vi. 288,628 ordinary Shares to Lee Chun Kiu Holding Limited;
 - vii. 109,598 ordinary Shares to Justin Moon Holding Limited;
 - viii. 10,226,944 ordinary Shares to Qiangqu Capital Holding Limited;
 - ix. 2,509,585 ordinary Shares to Shanghai Kangmai Enterprise Management Center (Limited Partnership);
 - x. 5,194,000 ordinary Shares to BA MART Holding Limited;
 - xi. 1,339,876 ordinary Shares to Qiurang Limited;
 - xii. 2,170,702 ordinary Shares to Beiying Holding Limited;
 - xiii. 3,291,000 ordinary Shares to Borchid Phoenix Holding Limited;
 - xiv. 1,713,528 ordinary Shares to XCWL Holdings Limited;
 - xv. 8,868,801 ordinary Shares to Pop Mart Hehuo Holding Limited;
 - xvi. 3,874,145 ordinary Shares to Tianjin Paqu Holding Limited;
 - xvii. 5,484,000 ordinary Shares to Kun Long Holding Limited;
 - xviii. 2,594,364 ordinary Shares to Long Yi Holding Limited;
 - xix. 2,399,740 ordinary Shares to Chuanggu Holding Limited;
 - xx. 933,455 ordinary Shares to Taiying Holding Limited;
 - xxi. 266,415 ordinary Shares to Gabrielle Wang Holding Limited;
 - xxii. 1,152,348 ordinary Shares to Rong&Kai Holdings Limited.
- (c) On November 6, 2019, our Company allotted ordinary Shares with a par value of US\$0.0001 each in the following manner:
- i. 5,166,417 ordinary Shares to GWF Holding;
 - ii. 100,202 ordinary Shares to Sidsi Holding Limited;
 - iii. 9,888 ordinary Shares to Justin Moon Holding Limited;
 - iv. 800,139 ordinary Shares to Pop Mart Hehuo Holding Limited.

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- (d) On January 31, 2020, our Company allotted 610,718 Series A Preferred Shares with a par value of US\$0.0001 to LVC Amusement LP.

On [●], the authorized share capital of our Company was, conditional upon [REDACTED], increased to US\$500,000, divided into 5,000,000,000 Shares of a nominal or par value of US\$0.0001.

See "History, Reorganization and Corporate Structure — The Reorganization" to this Document for details of the Reorganization.

Save as disclosed herein and as mentioned in the paragraph headed "3. Resolutions of our Shareholders" in this section, there has been no alteration in our share capital and no redemption, repurchase or sale of any of our share capital since our incorporation.

3. Resolutions of our Shareholders

Written resolutions of our Shareholders were passed on [●], pursuant to which, among others:

- (a) conditional upon [REDACTED], the authorized share capital of our Company was increased from US\$50,000 divided into 500,000,000 Shares of a nominal or par value of US\$0.0001, to US\$500,000, divided into 5,000,000,000 Shares of a nominal or par value of US\$0.0001 by the creation of an additional of 4,500,000,000 Shares;
- (b) the Memorandum and Articles of Association were approved and adopted conditional upon [REDACTED];
- (c) conditional upon all the conditions set out in "Structure of the [REDACTED]" in this Document being fulfilled:
- (i) the Capitalization Issue, the [REDACTED] and the [REDACTED] were approved and the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to make or effect such modifications as it thinks fit;
 - (ii) the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to allot, issue and approve the transfer of such number of Shares in connection with the [REDACTED]; and
 - (iii) the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to agree to the price per [REDACTED] with the [REDACTED].
- (d) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers or agreements or options (including any warrants, bonds, notes and debentures conferring any rights

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to subscribe for or otherwise receive Shares) which might require Shares to be allotted, issued or dealt with, otherwise than pursuant to the Capitalization Issue and the [REDACTED] or pursuant to a right issue or pursuant to the exercise of any subscription rights attaching to any warrants or any option scheme or similar arrangement which may be allotted and issued by our Company from time to time on a specific authority granted by the Shareholders in general meeting or, pursuant to the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, Shares not exceed 20% of the number of the Shares in issue immediately following completion of the Capitalization Issue and the [REDACTED], such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever is the earliest;

- (e) a general unconditional mandate was given to the Directors authorizing them to exercise all the powers of our Company to repurchase our own Shares on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares will represent up to 10% of the number of the Shares in issue immediately following the completion of the Capitalization Issue and the [REDACTED], such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever occurs first; and
- (f) the general mandate mentioned in paragraph (c) above be extended by the addition to the number of the Shares which may be allotted, or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the number of Shares repurchased by our Company pursuant to the mandate to purchase shares referred to in paragraph (d) above.

4. Reorganization

The companies comprising our Group underwent the Reorganization in preparation for the [REDACTED] of our Shares on the Stock Exchange. See the section headed "History, Reorganization and Corporate Structure — The Reorganization" in this Document for information relating to the Reorganization.

5. Changes in the Capital of Our Subsidiaries

Our subsidiaries during the Track Record Period are referred to in the Accountant's Report set out in Appendix I to this Document. The following alterations in the share or registered capital of our subsidiaries have taken place within two years immediately preceding the date of this Document.

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Beijing Pop Mart Cultural & Creative Co., Ltd.

On December 20, 2018, the registered capital of Beijing Pop Mart Cultural & Creative Co., Ltd. increased from RMB26.95 million to RMB115.46 million. On March 10, 2020, the registered capital of Beijing Pop Mart Cultural & Creative Co., Ltd. increased from RMB115.46 million to RMB200 million.

Beijing Paqu Huyu Technology Co., Ltd.

On May 10, 2019, the registered capital of Beijing Paqu Huyu Technology Co., Ltd. increased from RMB9 million to RMB10 million.

Save as disclosed above, there have been no alterations in the capital of our subsidiaries within the two years immediately preceding the date of this Document.

6. Repurchases of Our Own Securities

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) Shareholders' approval

All proposed repurchases of Shares (which must be fully paid up) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the Shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a written Shareholder's resolution of our Company dated [●], a general unconditional mandate (the "**Repurchase Mandate**") was given to the Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the number of Shares in issue immediately following the completion of the Capitalization Issue and the [REDACTED] but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED] until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first.

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(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with our Articles and the applicable laws of Hong Kong. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

(iii) Trading restrictions

The total number of Shares which our Company may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Capitalization Issue and the [REDACTED] (but not taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]). Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of [REDACTED] Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. Our Company is required to procure that the broker appointed by our Company to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(iv) Status of repurchased Shares

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically [REDACTED] and the certificates for those Shares must be cancelled and destroyed.

(v) Suspension of repurchase

Pursuant to the Listing Rules, our Company may not make any repurchases of Shares after inside information has come to its knowledge until the information is made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and

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- (ii) the deadline for our Company to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional.

(vi) Procedural and reporting requirements

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which our Company may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company's [REDACTED] is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vii) Connected parties

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person (as defined in the Listing Rules) and a core connected person shall not knowingly sell its securities to the company on the Stock Exchange.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of our Company and Shareholders for the Directors to have general authority from the Shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws and regulations of Hong Kong.

On the basis of the current financial position as disclosed in this Document and taking into account the current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position

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of our Company as compared with the position disclosed in this Document. The Directors, however, do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of our Company which in the opinion of the Directors are from time to time appropriate for our Company.

The exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately following the completion of the Capitalization Issue and the [REDACTED] (but not taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]), could accordingly result in [REDACTED] Shares being repurchased by our Company during the period prior to the earliest occurrence of (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of Hong Kong to be held; or (3) the revocation or variation of the purchase mandate by an ordinary resolution of the Shareholders in general meeting (the "**Relevant Period**").

(d) General

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of Hong Kong. Our Company have not repurchased any Shares since our incorporation.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares then in issue or such other minimum percentage prescribed by the Stock Exchange could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected person has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

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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) a share subscription agreement dated October 10, 2019, entered into by our Company, GWF Holding Limited, Pop Mart Hehuo Holding Limited, Sidsi Holding Limited and Justin Moon Holding limited, pursuant to which (i) GWF Holding Limited agreed to subscribe for the 5,166,417 allotted Shares at a consideration of RMB335,608,667; (ii) Pop Mart Hehuo Holding Limited agreed to subscribe for the 800,139 allotted Shares at a consideration of RMB51,976,753; (iii) Sidsi Holding Limited agreed to subscribe for the 100,202 allotted Shares at a consideration of RMB6,509,087; (iv) Justin Moon Holding Limited agreed to subscribe for the 9,888 allotted Shares at a consideration of RMB642,321;
- (b) an exclusive option agreement dated December 18, 2019 entered into among Beijing Pop Mart, Mr. Wang Ning and other Relevant Shareholders, and Paqu Huyu, pursuant to which Mr. Wang Ning and other Relevant Shareholders granted Beijing Pop Mart an irrevocable and exclusive right to purchase, or designate one or more persons to purchase, the equity interests held by Mr. Wang Ning and other Relevant Shareholders in, and/or the assets of, Paqu Huyu, for a purchase price which shall be the lowest amount permissible under the applicable laws of China;
- (c) an exclusive consultation and service agreement dated December 18, 2019 entered into between Beijing Pop Mart and Paqu Huyu, pursuant to which Paqu Huyu agreed to engage Beijing Pop Mart as its exclusive provider of technical support and consulting services;
- (d) a share pledge agreement dated December 18, 2019 entered into among Beijing Pop Mart, Mr. Wang Ning and other Relevant Shareholders, and Paqu Huyu, pursuant to which Mr. Wang Ning agreed to pledge all the equity interests in Paqu Huyu that he owns, including any right or interest attached to such equity interest, to Beijing Pop Mart as a security interest to guarantee the performance of contractual obligations of Mr. Wang Ning and other Relevant Shareholders and Paqu Huyu under the exclusive option agreement, the exclusive consultation and service agreement and the voting rights proxy agreement in relation to Paqu Huyu as summarized in paragraphs (a) and (b) above and paragraphs (d) below, respectively;
- (e) a voting rights proxy agreement power of attorney dated December 18, 2019 entered into between Mr. Wang Ning and other Relevant Shareholders and Beijing Pop Mart, pursuant which Mr. Wang Ning and other Relevant Shareholders irrevocably appointed Beijing Pop Mart or its designee (including but not limited to its directors, directors of its parent company, their successors or liquidators) as his agent to exercise on his behalf the shareholder's rights in respect of all the equity interest in Paqu Huyu held by Mr. Wang Ning and other Relevant Shareholders;
- (f) an irrevocable undertaking executed by each of the spouses of the Relevant Shareholders on December 18, 2019, whereby he/ she expressly and irrevocably acknowledge and undertook that (i) any equity interests held by his/her spouse as a registered shareholder in Paqu Huyu do not fall within the scope of their communal properties; (ii) he/ she will not take any

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measures that are in conflict with the Contractual Arrangements; and (iii) he/she had never participated and will not participate in the operation or management of Paqu Huyu; a Series A Preferred Shares subscription agreement dated January 31, 2020, entered into by our Company and LVC Amusement LP, pursuant to which LVC Amusement LP agreed to subscribe for 610,718 Series A Preferred Shares of our Company at a consideration of US \$12,500,000;

- (g) a Shareholders' Agreement dated January 31, 2020, entered into by our Company, Pop Mart (BVI) Holding Limited, Pop Mart (Hong Kong) Holding Limited, Pop Mart International Group Limited, Paqu Huyu, Beijing Pop Mart, Tianjin Pop Mart Culture & Creative Co., Ltd. (天津泡泡瑪特文化傳播有限公司), Shanghai Paqu Trading Co., Ltd. (上海葩趣貿易有限公司), Beijing Paqu Technology Co., Ltd. (北京葩趣科技有限公司), Beijing Pop Mart International Trading Co., Ltd. (北京泡泡瑪特國際貿易有限公司), Beijing Pop Mart Trading Co., Ltd. (北京泡泡瑪特商貿有限公司), Mr. Wang Ning, GWF Holding Limited, Tianjin Paqu Holding Limited, Justin Moon Holding Limited, Sidsi Holding Limited, Pop Mart Hehuo Holding Limited, VenturesLab Holdings Corporation, XCWL Holdings Limited, Maxtin Holdings Limited, SCC GROWTH V HOLDCO F, LTD., Borchid Phoenix Holding Limited, Golden Ocean Global Limited, BA MART Holding Limited, Wong Shun Ming Holding Limited, Kenny Wong Holding Limited, Qiorang Limited, Chuanguu Holding Limited, Rong&Kai Holdings Limited, Beijing Holding Limited, Taiying Holding Limited, Gabrielle Wang Holding Limited, Qiangqu Capital Holding Limited, Million Profit International Holdings Limited, Lee Chun Kiu Holding Limited and LVC Amusement LP; and
- (h) [REDACTED].

2. Intellectual Property Rights of our Group

(a) Trademarks

As of the Latest Practicable Date, our Group had registered the following key trademarks which we consider to be material to our Group's business:

No.	Trademark
1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
10.	

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<u>No.</u>	<u>Trademark</u>
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11.	潘神洛丽
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As of the Latest Practicable date, our Group has over 280 trademark registrations. Of these trademarks, as of the Latest Practicable Date, members of our Group have three applications for registrations in Hong Kong.

(b) Patents

As of the Latest Practicable Date, our Group had registered the following key patents which we consider to be material to our Group's business:

<u>No.</u>	<u>Patent Registered</u>	<u>Granting Country of Organization</u>	<u>Expiration Date</u>
1.	娃娃玩具 (Molly)	The PRC	2026/05/9
2.	BJD娃娃玩具	The PRC	2028/4/25

As of Latest Practicable Date, our Group has seven patent registrations in the PRC.

(c) Domain Names

As of the Latest Practicable Date, our Group had registered the following domain names which we consider to be material to our Group's business:

<u>Domain Name</u>	<u>Registered Owner</u>
www.popmart.com	Beijing Pop Mart
www.paquapp.com	Beijing Pop Mart
www.toyshowchina.com	Beijing Pop Mart

(d) Copyrights

As of the Latest Practicable Date, the key copyrights in relation to the business of our Group as a whole were:

<u>Copyright Name</u>	<u>Place of Registration</u>	<u>Nature of Copyright</u>
葩趣APP (Android版)	The PRC	System software
Molly 大耳牛系列	The PRC	Visual arts
Pucky Pool Babies	The PRC	Visual arts

Save as disclosed above, as of the Latest Practicable Date, there were no other trademarks, service marks, patents, intellectual property rights, or individual property rights which are or may be material in relation to our business.

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C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests and short positions of our Directors in the share capital of our Company and its associated corporations following completion of the Capitalization Issue and the [REDACTED]*

Immediately following completion of the Capitalization Issue and the [REDACTED] (without taking into account the Shares to be allotted and issued upon the exercise of the [REDACTED] and the [REDACTED] Share Award Scheme), the interests and/or short positions (as applicable) of our Directors or chief executives of our Company 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 10 to the Listing Rules ("**Model Code**") once the Shares are [REDACTED], will be as follows:

(i) Interest in the Shares

<u>Name of Director</u>	<u>Nature of Interest</u>	<u>Number of Shares upon [REDACTED]</u>	<u>Approximate percentage of shareholding interest upon [REDACTED]</u>
Mr. Wang ⁽¹⁾	Beneficiary and founder of a trust; beneficial interest; interest of spouse	688,009,220 [REDACTED]	[REDACTED]%
Ms. Yang Tao ⁽¹⁾	Beneficial interest; interest of spouse	688,009,220 [REDACTED]	[REDACTED]%

Notes:

(1) Ms. Yang Tao is the spouse of Mr. Wang and is therefore deemed to be interested in the Shares held by Mr. Wang.

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(ii) Interests in associated corporations

Our Directors are not interested in the Shares of any associated corporation of our Company.

(b) Interests and short positions of the Substantial Shareholders in the Shares and underlying shares of our Company

Save as disclosed in the section headed "Substantial Shareholders" in this Document, our Directors or chief executives are not aware of any other person, not being a Director or chief executive of our Company, who has any an interest or short position in the Shares and underlying Shares of our Company which, once the Shares are [REDACTED], would fall to be disclosed to our Company under 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 issued voting shares of our Company.

(c) Interests of the substantial shareholder of any member of our Group (other than our Company)

Save as set out above, as of the Latest Practicable Date, our Directors are not aware of any persons (not being Directors or chief executive of our Company) who would, immediately following the completion of the Capitalization Issue and the [REDACTED] (without taking into account the exercise of the [REDACTED] and the [REDACTED] Share Award Scheme) be directly or indirectly interested in 10% or more of the issued voting shares of the following member of our Group (other than our Company).

2. Particulars of Service Contracts

(a) Executive Directors

Each of the executive Directors has entered into a service contract with our Company under which they agreed to act as executive Directors for an initial term of three years commencing from the [REDACTED], which may be terminated by not less than three months' notice in writing served by either the executive Director or our Company.

The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

(b) Non-executive Director and Independent Non-executive Directors

Each of the non-executive Directors and the independent non-executive Directors [has signed] an appointment letter with our Company for a term of 3 years with effect from the [REDACTED]. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee while the non-executive Directors are not entitled to any remuneration. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

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(c) *Others*

- (i) Save as disclosed above, none of the Directors has entered into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).
- (ii) During the year ended December 31, 2019, the aggregate of the remuneration and benefits in kind payable to the Directors was approximately RMB4,246,000. Details of the Directors' remuneration are also set out in note 31 of the Accountant's Report set out in Appendix I to this Document. Save as disclosed in this Document, no other emoluments have been paid or are payable in respect of the year ended December 31, 2019 by our Company to the Directors.
- (iii) Under the arrangements currently in force, the aggregate of the remuneration and benefits in kind payable to the Directors for the year ending December 31, 2020 is estimated to be approximately RMB4,234,000.
- (iv) None of the Directors or any past Directors of any members of our Group has been paid any sum of money for the three years ended December 31, 2019 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a Director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (v) There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits in kind for the three years ended December 31, 2019.
- (vi) None of the Directors has been or is interested in the promotion of, or in the property proposed to be acquired by, our Company, and no sum has been paid or agreed to be paid to any of them in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

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3. Fees or commissions received

Save as disclosed in this Document, none of the Directors or any of the persons whose names are listed under the section headed “— E. Other Information — 9. Consents of Experts” below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this Document.

4. Miscellaneous

Save as disclosed in this Document:

- (a) none of the Directors or chief executive of our Company has any interest or short positions in the Shares, underlying Shares or debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to in that section, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code, in each case once our Shares are [REDACTED] on the Stock Exchange;
- (b) none of our Directors nor any of the parties listed in the section headed “— E. Other Information — 9. Consents of Experts” below has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this Document been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors nor any of the parties listed in the section headed “— E. Other Information — 9. Consents of Experts” below is materially interested in any contract or arrangement subsisting at the date of this Document which is significant in relation to the business of our Group taken as a whole;

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- (d) other than pursuant to the [REDACTED], none of the parties listed in the section headed “— E. Other Information — 9. Consents of Experts” below:
 - (i) is interested legally or beneficially in any of our Shares or any shares of any of our subsidiaries; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe securities in any member of our Group.
- (e) none of our Directors or their respective close associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our number of issued shares) has any interest in our five largest suppliers or our five large customers.

D. [REDACTED] SHARE AWARD SCHEME

The following is a summary of the principal terms of the [REDACTED] Share Award Scheme which was conditionally adopted by our Shareholders at the Shareholders’ meeting on [REDACTED]. The [REDACTED] Share Award Scheme is not a share option scheme and is not subject to the provisions of Chapter 17 of the Listing Rules. Our Company may appoint a trustee (“**Trustee**”) to administer the [REDACTED] Share Award Scheme with respect to the grant of any award by the Board (an “**Award**”) which may vest in the form of Shares (“**Award Shares**”) or the actual selling price of the Award Shares in cash in accordance with the [REDACTED] Share Award Scheme.

(a) Eligible Persons to the [REDACTED] Share Award Scheme

Any individual, being an employee, director (including executive Directors, non-executive Directors and independent non-executive Directors), officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate (an “**Eligible Person**” and, collectively “**Eligible Persons**”) who the Board or its delegate(s) considers, in its sole discretion, to have contributed or will contribute to the Group is eligible to receive an Award. However, no individual who is resident in a place where the grant, acceptance or vesting of an Award pursuant to the [REDACTED] Share Award Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board or its delegate(s), compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, shall be entitled to participate in the [REDACTED] Share Award Scheme.

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(b) Purpose of the [REDACTED] Share Award Scheme

The purpose of the [REDACTED] Share Award Scheme is to align the interests of Eligible Persons' with those of our Group through ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares, and to encourage and retain Eligible Persons to make contributions to the long-term growth and profits of our Group.

(c) Awards

An Award gives a selected participant a conditional right, when the Award Shares vest, to obtain the Award Shares or, if in the absolute discretion of the Board or its delegate(s), it is not practicable for the selected participant to receive the Award in Shares, the cash equivalent from the sale of the Award Shares. An Award includes all cash income from dividends in respect of those Shares from the date the Award is granted (the "**Grant Date**") to the date the Award vests (the "**Vesting Date**"). For the avoidance of doubt, the Board at its discretion may from time to time determine that any dividends declared and paid by our Company in relation to the Award Shares be paid to the selected participant even though the Award Shares have not yet vested.

(d) Grant of Award

(i) Making the Grant

The Board or the committee of the Board or person(s) to which the Board has delegated its authority may, from time to time, at their absolute discretion, grant an Award to a selected participant (in the case of the Board's delegate(s), to any selected participant other than a Director or an officer of our Company) by way of an award letter ("**Award Letter**"). The Award Letter will specify the Grant Date, the number of Award Shares underlying the Award, the vesting criteria and conditions, the Vesting Date and such other details as the Board or its delegate(s) may consider necessary.

Each grant of an Award to any Director, chief executive or substantial shareholder of our Company shall be subject to the prior approval of the independent non-executive Directors of our Company (excluding any independent non-executive Director who is a proposed recipient of an Award). Our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for any grant of Shares to connected persons of our Company.

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(ii) Restrictions on Grants and Timing of Grants

The Board and its delegate(s) may not grant any Award Shares to any selected participant in any of the following circumstances:

- (A) where any requisite approval from any applicable regulatory authorities has not been granted;
- (B) where any member of our Group will be required under applicable securities laws, rules or regulations to issue a Document or other [REDACTED] documents in respect of such Award or the [REDACTED] Share Award Scheme, unless the Board determines otherwise;
- (C) where such Award would result in a breach by any member of our Group or its directors of any applicable securities laws, rules or regulations in any jurisdiction;
- (D) where such grant of Award would result in a breach of the [REDACTED] Share Award Scheme Limit (as defined below) or the minimum public float requirement as required under the Listing Rules, or would otherwise cause our Company to issue Shares in excess of the permitted amount in the mandate approved by the Shareholders;
- (E) where an Award is to be satisfied by way of issue of new Shares to the Trustee, in any circumstances that cause the total Shares issued or allotted to connected persons (as defined under the Listing Rules) to be in excess of the amount permitted in the mandate approved by the Shareholders;
- (F) where any Director of our Company is in possession of unpublished inside information in relation to our Company or where dealings by Directors of our Company are prohibited under any code or requirement of the Listing Rules and all applicable laws, rules or regulations, from time to time;
- (G) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results, unless the circumstances are exceptional, for example, where a pressing financial commitment has to be met, in accordance with the Listing Rules;
- (H) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and the half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results, unless the

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circumstances are exceptional, for example, where a pressing financial commitment has to be met, in accordance with the Listing Rules; and

- (l) during any period of delay in the publication of a results announcement.

(e) Maximum Number of Shares to be Granted

The aggregate number of Shares underlying all grants made pursuant to the [REDACTED] Share Award Scheme (excluding Award Shares which have been forfeited in accordance with the [REDACTED] Share Award Scheme) will not exceed 10% Shares without Shareholders' approval (the "[REDACTED] Share Award Scheme Limit") subject to an annual limited of 5% of the total number of issued Shares at the relevant time.

(f) Scheme Mandate

To the extent that the [REDACTED] Share Award Scheme Limit is subsequently increased by way of alteration of the [REDACTED] Share Award Scheme and our Company is required to issue and allot new shares to satisfy any Awards in excess of any amount previously approved by the Shareholders, our Company shall at a general meeting propose, and the Shareholders shall consider and, if thought fit, pass an ordinary resolution approving a mandate specifying:

- (i) the maximum number of Shares that may be issued for this purpose; and
- (ii) that the Board has the power to issue, allot, procure the transfer of and otherwise deal with the Shares in connection with the [REDACTED] Share Award Scheme.

The mandate will remain in effect during the period from the passing of the ordinary resolution granting the mandate until the variation or revocation of such mandate by an ordinary resolution of the Shareholders in a general meeting.

(g) Rights attached to the Award

Save that the Board at its discretion may from time to time determine that any dividends declared and paid by our Company in relation to the Award Shares be paid to the selected participants even though the Award Shares have not yet vested, the selected participant only has a contingent interest in the Award Shares underlying an Award unless and until such Award Shares are actually transferred to the selected participant, nor does he/she have any rights to any related income until the Award Shares vest.

Neither the selected participant nor the Trustee may exercise any voting rights in respect of any Award Shares that have not yet vested.

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(h) Rights attached to the Shares

Any Award Shares transferred to a selected participant in respect of any Awards will be subject to all the provisions of the Memorandum and the Articles and will form a single class with the fully paid Shares in issue on the relevant date.

(i) Issue of Shares and/or transfer of funds to the trustee

Our Company shall, as soon as reasonably practicable and no later than 30 business days from the Grant Date, (i) issue and allot Shares to the Trustee under the specific mandate sought from Shareholders during the general meeting and/or (ii) transfer to the Trustee the necessary funds and instruct the Trustee to acquire Shares through on-market transactions at the prevailing market price, so as to satisfy the Awards.

Our Company shall not issue or allot Shares nor instruct the Trustee to acquire Shares through on-market transactions at the prevailing market price, where such action (as applicable) is prohibited under the Listing Rules, the Securities and Futures Ordinance or other applicable laws from time to time. Where such a prohibition causes the prescribed timing imposed by the [REDACTED] Share Award Scheme Rules or the Trust Deed to be missed, such prescribed timing shall be treated as extended until as soon as reasonably practicable after the first Business Day on which the prohibition no longer prevents the relevant action.

(j) Assignment of Awards

Unless express written consent is obtained from the Board or the committee of the Board or person(s) to which the Board has delegated its authorities, any Award Shares granted under the [REDACTED] Share Award Scheme but not yet vested are personal to the selected participants to whom they are granted and cannot be assigned or transferred. A selected participant shall not in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any other person over or in relation to any Award, or enter into any agreement to do so.

(k) Vesting of Awards

The Board or its delegate(s) may from time to time while the [REDACTED] Share Award Scheme is in force and subject to all applicable laws, determine such vesting criteria and conditions or periods for the Award to be vested.

Within a reasonable time period as agreed between the Trustee and the Board from time to time prior to any Vesting Date, the Board or its delegate(s) will send a vesting notice to the relevant selected participant and instruct the Trustee the extent to which the Award Shares held in the Trust shall be transferred and released from the Trust to the selected participant. Subject to the receipt of the

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vesting notice and notification from the Board or its delegate(s), the Trustee will transfer and release the relevant Award in the manner as determined by the Board or its delegate(s).

If, in the absolute discretion of the Board or its delegate(s), it is not practicable for the selected participant to receive the Award in Shares, solely due to legal or regulatory restrictions with respect to the selected participant's ability to receive the Award in Shares or the Trustee's ability to give effect to any such transfer to the selected participant, the Board or its delegate(s) will direct and procure the Trustee to sell, on-market at the prevailing market price, the number of Award Shares so vested in respect of the selected participant and pay the selected participant the proceeds arising from such sale based on the actual selling price of such Award Shares in cash as set out in the vesting notice.

If there is an event of change in control of our Company by way of a merger, a privatization of our Company by way of a scheme or by way of an offer, the Board or the committee of the Board or person(s) to which the Board has delegated its authority shall at their sole discretion determine whether the Vesting Dates of any Awards will be accelerated to an earlier date.

(I) Consolidation, subdivision, bonus issue and other distribution

In the event our Company undertakes a subdivision or consolidation of the Shares, corresponding changes will be made to the number of outstanding Award Shares that have been granted provided that the adjustments shall be made in such manner as the Board determines to be fair and reasonable in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the [REDACTED] Share Award Scheme for the selected participants. All fractional shares (if any) arising out of such consolidation or subdivision in respect of the Award Shares of a selected participant shall be deemed as returned shares and shall not be transferred to the relevant selected participant on the relevant Vesting Date. The Trustee shall hold returned shares to be applied towards future Awards in accordance with the provisions of the [REDACTED] Share Award Scheme rules for the purpose of the [REDACTED] Share Award Scheme.

In the event of an issue of Shares by our Company credited as fully paid to the holders of the Shares by way of capitalization of profits or reserves (including share premium account), the Shares attributable to any Award Shares held by the Trustee shall be deemed to be an accretion to such Award Shares and shall be held by the Trustee as if they were Award Shares purchased by the Trustee hereunder and all the provisions hereof in relation to the original Award Shares shall apply to such additional Shares.

In the event of any non-cash distribution or other events not referred to above by reason of which the Board considers an adjustment to an outstanding Award to be fair and reasonable, an adjustment shall be made to the number of outstanding Award Shares of each selected participant as the Board shall consider as fair and reasonable, in order to prevent dilution or enlargement of the

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benefits or potential benefits intended to be made available under the [REDACTED] Share Award Scheme for the selected participants. Our Company shall provide such funds, or such directions on application of the returned shares or returned trust funds, as may be required to enable the Trustee to purchase Shares on-market at the prevailing market price to satisfy the additional Award.

In the event of other non-cash and non-scrip distributions made by our Company not otherwise referred to in the [REDACTED] Share Award Scheme rules in respect of the Shares held upon Trust, the Trustee shall sell such distribution and the net sale proceeds thereof shall be deemed as related income of the [REDACTED] Award Shares or returned trust funds of the returned Shares held upon Trust as the case may be.

(m) Cessation of employment and other events

Except as otherwise determined by the Board or the committee of the Board or person(s) to which the Board has delegated its authority, upon termination of employment or service with our Company during the applicable restriction period, Awards that are at that time unvested shall be forfeited or repurchased in accordance with the terms and provisions of the grant letter and/or award agreement to be entered into by such selected participant; provided, however, that the Board or the committee of the Board or person(s) to which the Board has delegated its authority may (a) provide in any grant letter and/or award agreement that restrictions or forfeiture and repurchase conditions relating to the Awards will be waived in whole or in part in the event of terminations resulting from specified causes; and (b) in other cases waive in whole or in part restrictions or forfeiture and repurchase conditions relating to the Awards.

If a selected participant ceases to be an Eligible Person for reasons other than those stated in this paragraph, any outstanding Award Shares and related income not yet vested shall be immediately forfeited, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

(n) Alteration of the [REDACTED] Share Award Scheme

The [REDACTED] Share Award Scheme may be altered in any respect (save for the [REDACTED] Share Award Scheme Limit) by a resolution of the Board provided that no such alteration shall operate to affect adversely any subsisting rights of any selected participant unless otherwise provided for in the rules of the [REDACTED] Share Award Scheme, except:

- (i) with the consent in writing of selected participants amounting to three-fourths in nominal value of all Award Shares held by the Trustee on that date; or
- (ii) with the sanction of a special resolution that is passed at a meeting of the selected participants amounting to three-fourths in nominal value of all Award Shares held by the Trustee on that date.

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(o) Termination

The [REDACTED] Share Award Scheme shall terminate on the earlier of:

- (i) the end of the period of ten years commencing on the [REDACTED] except in respect of any non-vested Award Shares granted hereunder prior to the expiration of the [REDACTED] Share Award Scheme, for the purpose of giving effect to the vesting of such Award Shares or otherwise as may be required in accordance with the provisions of the [REDACTED] Share Award Scheme; and
- (ii) such date of early termination as determined by the Board provided that such termination shall not affect any subsisting rights of any selected participant under the rules of the [REDACTED] Share Award Scheme, provided further that for the avoidance of doubt, the change in the subsisting rights of a selected participant in this paragraph refers solely to any change in the rights in respect of the Award Shares already granted to a selected participant.

(p) Administration of the [REDACTED] Share Award Scheme

The Board has the power to administer the [REDACTED] Share Award Scheme in accordance with the rules of the [REDACTED] Share Award Scheme and, where applicable, the Trust deed, including the power to construe and interpret the rules of the [REDACTED] Share Award Scheme and the terms of the Awards granted under the [REDACTED] Share Award Scheme. The Board may delegate the authority to administer the [REDACTED] Share Award Scheme to a committee of the Board or other person(s) as deemed appropriate at the sole discretion of the Board. The Board or its delegate(s) may also appoint one or more independent third party contractors to assist in the administration of the [REDACTED] Share Award Scheme as they think fit.

(q) Grant of Shares under the [REDACTED] Share Award Scheme

As of the date of this Document, no Shares had been granted or agreed to be granted under the [REDACTED] Share Award Scheme.

An application has been submitted to the Listing Committee for the [REDACTED] of, and permission to deal in, the Shares which may be issued pursuant to the [REDACTED] Share Award Scheme.

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E. OTHER INFORMATION

1. Litigation

As of the Latest Practicable Date, we are not aware of any other litigation or arbitration proceedings of material importance pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

2. Application for [REDACTED]

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee for the [REDACTED] of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue, the [REDACTED] (including all additional [REDACTED] which may be issued pursuant to the exercise of the [REDACTED]) and the [REDACTED] Share Award Scheme as mentioned in this Document. All necessary arrangements have been made to enable such [REDACTED] into CCASS.

3. No Material Adverse Change

The Directors confirm that there has been no material change in the financial or trading position or prospects of our Group since December 31, 2019 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

4. Agency Fees and [REDACTED] Received

The [REDACTED] will receive an [REDACTED] as referred to in the section headed "[REDACTED]".

5. The Joint Sponsors and Joint Sponsors' fees

The Joint Sponsors are independent from our Company pursuant to Rule 3A.07 of the Listing Rules. The fees payable by our Company to each of the Joint Sponsors to act as sponsor to our Company in connection with the [REDACTED] are US\$[REDACTED] (HK\$[REDACTED]) or in aggregate US\$[REDACTED] (HK\$[REDACTED]).

6. Preliminary expenses

We have not incurred any material preliminary expenses.

7. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed in this Document, within the two years immediately preceding the date of this Document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this Document.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

8. Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this Document:

<u>Name</u>	<u>Qualification</u>
Morgan Stanley Asia Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on future contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO
CLSA Capital Markets Limited	Licensed corporation under the SFO for type 1 (dealing in securities), type 4 (advising on securities) and type 7 (providing automated trading services) of the regulated activities as defined under the SFO
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountants Ordinance (Cap. 50 of the Laws of Hong Kong) Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588 of the Laws of Hong Kong)
Jingtian & Gongcheng	Company's PRC legal advisor
Maples and Calder (Hong Kong) LLP	Company's Cayman Islands legal advisers
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultants

9. Consent of Experts

Each of Morgan Stanley Asia Limited, CLSA Capital Markets Limited, PricewaterhouseCoopers, Jingtian & Gongcheng, Maples and Calder (Hong Kong) LLP and Frost & Sullivan has given and has not withdrawn its respective written consent to the issue of this Document with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included in this Document in the form and context in which it is respectively included.

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10. Binding Effect

This Document shall have the effect, if an application is made in pursuance of this Document, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

11. Bilingual Document

The English and Chinese language versions of this Document are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

F. MISCELLANEOUS

- (a) Save as disclosed in this Document, within the two years immediately preceding the date of this Document:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founders or management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
 - (iv) 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 any of our subsidiaries; and
 - (v) 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 any of our subsidiaries.
- (b) Save as disclosed in this Document, our Group had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities.
- (c) Our Directors confirm that:
 - (i) there has been no material adverse change in the financial or trading position or prospects of our Group since December 31, 2019 (being the date to which the latest audited consolidated financial statements of our Group were prepared);

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- (ii) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (iii) 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) The principal register of members of our Company will be maintained in the Cayman Islands by our [REDACTED]. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our [REDACTED].
- (e) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.
- (f) No company within our Group is presently [REDACTED] on any stock exchange or traded on any trading system.

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED 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, among other documents:

- (a) copies of [REDACTED];
- (b) the written consents referred to in the section headed "Statutory and General Information — E. Other Information — 9. Consent of Experts" in Appendix IV to this Document; and
- (c) copies of the material contracts referred to in the section headed "Statutory and General Information — B. Further Information about our Business — 1. Summary of Material Contracts" in Appendix IV to this Document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Davis Polk & Wardwell at 18th Floor, The Hong Kong Club Building, 3A Chater Road, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this Document:

- (a) the Memorandum and the Articles of Association;
- (b) the Accountant's Report of our Group from PricewaterhouseCoopers, the texts of which are set out in Appendix I to this Document;
- (c) the report from PricewaterhouseCoopers in relation to the unaudited [REDACTED] financial information of our Group, the text of which is set forth in Appendix II to this Document;
- (d) the audited consolidated financial statements of our Company for the three financial years ended December 31, 2017, 2018 and 2019;
- (e) the PRC legal opinions issued by our PRC Legal Adviser on PRC law, in respect of certain general corporate matters of our Group and the property interests of the Group and in respect of certain aspects of PRC law referred to in the section headed "Contractual Arrangements";
- (f) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal adviser on Cayman Islands law, summarizing certain aspects of the Cayman Companies Law referred to in Appendix III to this Document;
- (g) the report issued by Frost & Sullivan, from which information in the section headed "Industry Overview" of the Document is extracted;
- (h) the Cayman Companies Law;

