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POP MART

POP MART INTERNATIONAL GROUP LIMITED

泡泡瑪特國際集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9992)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2020**

ANNUAL RESULTS HIGHLIGHTS

	For the year ended December 31		
	2020	2019	Change
	RMB'000	RMB'000	(%)
Revenue	2,513,471	1,683,434	49.3%
Gross profit	1,594,108	1,090,334	46.2%
Operating profit	718,783	598,794	20.0%
Profit before income tax	707,403	598,375	18.2%
Profit for the year	523,312	451,118	16.0%
Profit for the year attributable to owners of the Company	523,505	451,118	16.0%
Non-IFRS adjusted net profit	590,506	469,123	25.9%
Basic earnings per share (RMB)	0.44	0.39	12.8%

The board of directors (the “**Board**”) of Pop Mart International Group Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended December 31, 2020 (the “**Reporting Period**”). The content of this annual results announcement has been prepared in accordance with applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) in relation to preliminary announcements of annual results, and has been prepared in accordance with the International Financial Reporting Standards (“**IFRS**”) issued by the International Auditing and Assurance Standards Board (“**IAASB**”). Such annual results have also been reviewed and confirmed by the Board and the audit committee of the Board (the “**Audit Committee**”). Unless otherwise stated, the financial data of the Company are presented in Renminbi (“**RMB**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended December 31,	
	Note	2020	2019
		RMB'000	RMB'000
Revenue	3	2,513,471	1,683,434
Cost of sales	4	<u>(919,363)</u>	<u>(593,100)</u>
Gross profit		1,594,108	1,090,334
Distribution and selling expenses	4	(630,069)	(363,819)
General and administrative expenses	4	(279,967)	(142,468)
Reversal of/ (provision for) impairment on financial assets		398	(3,086)
Other income	5	45,420	17,013
Other (losses)/gains – net		<u>(11,107)</u>	<u>820</u>
Operating profit		718,783	598,794
Finance income	6	1,953	424
Finance expenses	6	<u>(10,946)</u>	<u>(5,813)</u>
Finance expenses – net	6	<u>(8,993)</u>	<u>(5,389)</u>
Fair value changes of convertible redeemable preferred shares		(6,260)	–
Share of profit of investments accounted for using the equity method		<u>3,873</u>	<u>4,970</u>
Profit before income tax		707,403	598,375
Income tax expense	7	<u>(184,091)</u>	<u>(147,257)</u>
Profit for the year		523,312	451,118
Profit for the year attributable to:			
– Owners of the Company		523,505	451,118
– Non-controlling interests		<u>(193)</u>	<u>–</u>
		523,312	451,118

	<i>Note</i>	Year ended December 31,	
		2020	2019
		RMB'000	RMB'000
Other comprehensive (loss)/income			
Items that may be reclassified to profit or loss			
– Currency translation differences		<u>(25,726)</u>	<u>903</u>
Items that will not be reclassified to profit or loss			
– Currency translation differences		<u>(13,050)</u>	<u>–</u>
Other comprehensive (loss)/income for the year, net of tax		<u>(38,776)</u>	<u>903</u>
Total comprehensive income for the year		<u>484,536</u>	<u>452,021</u>
Total comprehensive income for the year attributable to:			
– Owners of the Company		484,604	452,021
– Non-controlling interests		<u>(68)</u>	<u>–</u>
		<u>484,536</u>	<u>452,021</u>
Earnings per share for profit attributable to owners of the Company			
– Basic (expressed in RMB per share)	9	0.44	0.39
– Diluted (expressed in RMB per share)	9	<u>0.44</u>	<u>0.39</u>

CONSOLIDATED BALANCE SHEETS

	<i>Note</i>	As at December 31,	
		2020	2019
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment		238,325	103,559
Intangible assets		92,731	18,620
Right-of-use assets		287,799	178,938
Investments accounted for using the equity method		50,380	22,101
An associate measured at fair value through profit or loss		16,900	–
Prepayments		6,177	10,443
Deferred income tax assets		23,087	16,219
		<hr/>	<hr/>
Total non-current assets		715,399	349,880
		<hr/>	<hr/>
Current assets			
Trade receivables	<i>10</i>	78,334	45,636
Other receivables		90,781	59,696
Inventories		225,369	96,302
Prepayments and other current assets		177,918	140,353
Financial assets at fair value through profit or loss		–	50,000
Restricted Cash		3,263	–
Cash and cash equivalents		5,680,235	324,614
		<hr/>	<hr/>
Total current assets		6,255,900	716,601
		<hr/>	<hr/>
Total assets		6,971,299	1,066,481
		<hr/> <hr/>	<hr/> <hr/>

	<i>Note</i>	As at December 31,	
		2020	2019
		RMB'000	RMB'000
Equity			
Share capital		923	82
Shares held for share award scheme		(16)	–
Other reserves		5,189,115	169,631
Retained earnings		<u>939,352</u>	<u>423,068</u>
Equity attributable to owners of the Company		<u>6,129,374</u>	<u>592,781</u>
Non-controlling interests in equity		<u>1,628</u>	–
Total equity		<u>6,131,002</u>	<u>592,781</u>
Liabilities			
Non-current liabilities			
License fees payables		27,934	1,318
Lease liabilities		<u>147,050</u>	<u>90,812</u>
Total non-current liabilities		<u>174,984</u>	<u>92,130</u>
Current liabilities			
Trade payables	<i>11</i>	115,804	49,406
License fees payables		58,880	15,177
Other payables		202,297	122,050
Contract liabilities		83,941	35,167
Lease liabilities		144,724	92,586
Current income tax liabilities		<u>59,667</u>	<u>67,184</u>
Total current liabilities		<u>665,313</u>	<u>381,570</u>
Total liabilities		<u>840,297</u>	<u>473,700</u>
Total equity and liabilities		<u>6,971,299</u>	<u>1,066,481</u>

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Pop Mart International Group Limited (the “**Company**”) was incorporated in the Cayman Islands on May 9, 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 P.O. Box 309, Ugland House, 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 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.

On December 11, 2020, the Company has successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and made an offering of 135,715,200 new ordinary shares at a price of HKD38.5 per share. Additionally, the Company issued and allotted 20,357,200 ordinary shares on December 15, 2020 pursuant to the full exercise of the over-allotment option as disclosed in the announcement of the Company dated December 15, 2020. The gross proceeds received by the Company was approximately HKD6,008,787,000 (equivalent to approximately RMB5,070,481,000).

Pursuant to a written resolution of all shareholders of the Company (the “**Shareholders**”) passed on November 23, 2020, conditional upon the share premium account of the Company being credit as a result of the issuance of new shares pursuant to the Global Offering, the directors of the Company (the “**Director**”) were authorized to capitalize an amount of USD112,128 towards paying up in full at par of 1,121,278,635 ordinary shares of USD0.0001 par value each for allotment and issue to the persons whose names appear on the register of members of the Company at the close of business on the business day preceding December 11, 2020 in proportion to their then existing shareholding (“**Capitalization Issue**”).

These consolidated financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated.

These consolidated financial statements have been approved for issue by the board of directors of the Company on March 26, 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the year presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(i) Compliance with IFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRS**”) issued by International Accounting Standards Board (“**IASB**”) and the disclosure requirements of the Hong Kong Companies Ordinance (“**HKCO**”) (Cap. 622 of laws of Hong Kong).

(ii) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss which are carried at fair value.

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2020:

- Definition of Material – amendments to IAS 1 and IAS 8
- Definition of a Business – amendments to IFRS 3
- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting

The Group also elected to adopt the following amendments early:

- COVID-19-Related Rent Concessions – amendments to IFRS 16

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods, except for the Amendment to IFRS 16 set out in Note 2.2 below.

(iv) New standards, amendments and revised conceptual framework not yet adopted

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2020 reporting periods and have not been early adopted by the Group.

New standards, interpretations and amendments	Effective date
Amendments to IAS 1 – Classification of Liabilities as Current and Non-current	January 1, 2023
Amendments to IAS 16 – Property, plant and equipment: proceeds before intended use	January 1, 2022
Amendments to IAS 37 – Onerous contracts – costs of fulfilling a contract	January 1, 2022
Amendments to IFRS 3 – Update reference to the Conceptual framework	January 1, 2022
Annual improvements 2018-2020 cycle (IFRS 1, IFRS 9, IFRS 16 and IAS 41)	January 1, 2022
IFRS 17 – Insurance Contracts	January 1, 2023
Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets	To be determined

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.

2.2 Changes in accounting policies

The Group has early adopted Amendment to IFRS 16 – Covid-19-Related Rent Concessions retrospectively from January 1, 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions totaling approximately RMB7,229,000 have been accounted for as negative variable lease payments and recognised in distribution and selling expenses and general and administrative expenses in the consolidated statement of profit or loss for and other comprehensive income, with a corresponding adjustment to the lease liability. There is no impact on the opening balance of equity at January 1, 2020.

3 REVENUE AND SEGMENT INFORMATION

Management determines the operating segments based on the reports reviewed by the chief operating decision-makers (“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 revenue. Accordingly, no geographical information is presented.

Breakdown of revenue by business lines is as follows:

	Year ended December 31,	
	2020	2019
	RMB’000	RMB’000
Revenue from contracts with customers		
Revenue from retail store sales	1,002,054	739,690
Revenue from online sales	951,875	539,201
Revenue from roboshop sales	328,679	248,554
Revenue from wholesales	207,386	110,467
Revenue from conventions	23,477	45,522
	<u>2,513,471</u>	<u>1,683,434</u>
Total	<u>2,513,471</u>	<u>1,683,434</u>

	Year ended December 31,	
	2020	2019
	RMB’000	RMB’000
Revenue		
Point-in-time	2,505,509	1,671,554
Over-time (i)	7,962	11,880
	<u>2,513,471</u>	<u>1,683,434</u>
Total	<u>2,513,471</u>	<u>1,683,434</u>

	Year ended December 31,	
	2020	2019
	RMB’000	RMB’000
Revenue		
Revenue recognised on a gross basis	2,511,843	1,669,838
Revenue recognised on a net basis (ii)	1,628	13,596
	<u>2,513,471</u>	<u>1,683,434</u>
Total	<u>2,513,471</u>	<u>1,683,434</u>

- (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) Certain revenue generated from consignment sales of third-party brand products in the Group’s retail store and at the conventions hosted by the Group is recognised on a net basis when the Group acts as an agent in the transactions and does not take inventory risk or have latitude in establishing prices for the products.

For the years ended December 31, 2020 and 2019, no revenue derived from transactions with a single customer represent 10% or more of the Group’s total revenue.

4 EXPENSES BY NATURE

	Year ended December 31,	
	2020 RMB'000	2019 RMB'000
Cost of inventories included in cost of sales	748,452	488,035
Employee benefit expenses	242,963	155,494
Depreciation of right-of-use assets	142,940	70,324
Transportation and logistics expenses	110,061	39,325
Advertising and marketing expenses	92,171	53,832
E-commerce platform service charges	81,262	28,841
Depreciation on property, plant and equipment	66,682	29,580
Design and license fees	62,721	48,406
Listing expenses	44,024	16,538
Expenses relating to short-term leases and variable leases not included in lease liabilities	43,620	55,208
Amortisation of intangible assets	36,221	8,799
Taxes and surcharges	20,634	16,400
Convention cost	18,408	16,720
Expense relating to re-designation of ordinary shares to preferred shares	16,910	–
Commissions to roboshop partners	13,179	19,116
Cost of moulds with useful lives within one year	7,460	4,565
Auditor's remuneration	3,150	–
– Audit services	3,000	–
– Non-audit services	150	–
Impairment of inventory	2,095	1,710
Others	76,446	46,494
Total	1,829,399	1,099,387

5 OTHER INCOME

	Year ended December 31,	
	2020 RMB'000	2019 RMB'000
Government grants (i)	26,412	4,417
License fee income	18,695	12,103
Others	313	493
Total	45,420	17,013

- (i) The amounts represent government grants related to income which are received from the local government for the contribution to the local economic growth. These grants are recognised in consolidated statement of profit or loss and other comprehensive income upon the receipt. There are no unfulfilled conditions or contingencies relating to these grants.

6 FINANCE EXPENSES – NET

	Year ended December 31,	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Finance income		
– Interest income	(1,953)	(424)
Finance expenses		
– Interest expenses on lease liabilities	10,946	5,813
Finance expenses – net	<u>8,993</u>	<u>5,389</u>

7 INCOME TAX EXPENSE

	Year ended December 31,	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current income tax	190,959	155,710
– Hong Kong profits tax	4,104	3,091
– The mainland China corporate income tax	186,855	152,619
Deferred income tax	(6,868)	(8,453)
Income tax expense	<u>184,091</u>	<u>147,257</u>

(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 pursuant to the current laws of the Cayman Islands. The group entity incorporated or registered under the Business Companies Act of British Virgin Islands (“BVI”) are exempted from BVI income tax pursuant to the current laws of the BVI.

(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%. Hong Kong profits tax has been provided at the rate of 16.5% on the Group’s estimated assessable profit for the year ended December 31, 2020 (2019: 16.5%).

(c) Mainland China Corporated Income Tax (“CIT”)

The income tax provision of the Group in respect of operations in the mainland China has been calculated at the tax rate of 25% on the estimated assessable profit for the year ended December 31, 2020 (the year ended December 31, 2019: 25%), 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 mainland China whereby the subsidiaries operating in the respective jurisdictions are entitled to tax concessions.

(d) Mainland China Withholding Tax (“WHT”)

According to the applicable mainland China tax regulations, dividends distributed by a company established in the mainland China to a foreign investor with respect to profit derived after January 1, 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 mainland China and Hong Kong, the relevant withholding tax rate will be 5%.

As of December 31, 2020, the aggregate undistributed earnings of the Group’s subsidiaries incorporated in the mainland China are RMB935,668,000 (as of December 31, 2019: 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 consolidated financial statements.

8 DIVIDENDS

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Proposed final dividend of RMB14.94 cents (2019: nil) per ordinary share	<u>209,402</u>	<u>–</u>

Pursuant to a resolution passed on March 26, 2021, the board of directors of the Company proposed a final dividend of RMB14.94 cents per ordinary share of the Company, amounting to RMB209,402,000 for the year ended December 31, 2020 from the Company's share premium. The final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on June 1, 2021.

The proposed dividend is not reflected as a dividend payable in the consolidated financial results, but will be reflected as an appropriation of distributable reserves for the year ending December 31, 2021.

9 EARNINGS PER SHARE

Following the completion of the Capitalization Issue on December 11, 2020 as disclosed in Note 1, the weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the years ended December 31, 2020 and 2019 has been retrospectively adjusted.

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Group by the weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme during the years ended December 31, 2020 and 2019.

	Year ended December 31,	
	2020	2019
Profit attributable to owners of the Company (RMB'000)	523,505	451,118
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (Thousands)	<u>1,194,709</u>	<u>1,154,563</u>
Basic earnings per share (expressed in RMB per share)	<u>0.44</u>	<u>0.39</u>

(b) Diluted earnings per share

For the year ended December 31, 2020, diluted earnings per share is calculated based on the profit for the year attributable to owners of the Company after adjustment for fair value changes on redeemable and convertible preferred shares and the weighted average number of ordinary shares outstanding after adjustment for assumed conversion of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares for the year ended December 31, 2019.

	Year ended December 31,	
	2020	2019
Profit attributable to owners of the Company (RMB'000)	523,505	451,118
Adjustment for fair value changes on redeemable and convertible preferred shares (RMB'000)	6,260	—
Profit used to determine diluted earnings per share (RMB'000)	529,765	451,118
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (in thousands)	1,194,709	1,154,563
Adjustment for assumed conversion of convertible redeemable preferred shares (in thousands)	16,514	—
Weighted average number of shares for diluted earnings per shares (in thousands)	1,211,223	1,154,563
Dilute earnings per share (expressed in RMB per share)	0.44	0.39

10 TRADE RECEIVABLES

	As at December 31,	
	2020	2019
	RMB'000	RMB'000
Trade receivables (a)		
– Third parties	61,311	43,817
– Related parties	19,288	4,752
Subtotal	80,599	48,569
Less: provision for impairment (b)	(2,265)	(2,933)
Total trade receivables	78,334	45,636

(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 of up to 180 days.

An aging analysis of the trade receivables based on invoice date is as follows:

	As at December 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	67,736	42,224
3 months to 6 months	11,477	3,711
Over 6 months	1,386	2,634
	<hr/>	<hr/>
Total	80,599	48,569
	<hr/> <hr/>	<hr/> <hr/>

(b) Movements in allowance for impairment of trade receivables is as follows:

	Year ended December 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
As at January 1	2,933	210
(Reversal of)/provision for impairment allowance	(668)	2,723
	<hr/>	<hr/>
As at December 31	2,265	2,933
	<hr/> <hr/>	<hr/> <hr/>

11 TRADE PAYABLES

The credit terms of merchandise payables granted by the suppliers are usually current to 180 days. At December 31, 2020 and 2019, the aging analysis of the merchandise payables based on invoice date were as follow:

	As at December 31,	
	2020 RMB'000	2019 RMB'000
Within 30 days	31,355	23,605
30 to 90 days	44,736	11,652
90 to 180 days	20,604	5,028
Over 180 days	19,109	9,121
	<u>115,804</u>	<u>49,406</u>

12 CONTINGENCY

On August 28, 2020, Beijing Pop Mart Culture & Creative Co., Ltd (“**Beijing Pop Mart**”) received a court summons dated August 19, 2020 in relation to a claim brought by Golden Eagle International Retail Group (China) Co., Ltd. (“**Golden Eagle International**”) as a shareholder on behalf of Nanjing Golden Eagle Pop Mart Co., Ltd. (“**Nanjing Pop Mart**”) at the Jiangsu Nanjing Intermediate People’s Court against Beijing Pop Mart, alleging, among others, that Beijing Pop Mart had breached an investment cooperation agreement dated April 29, 2014 which was entered into among Golden Eagle International, Mr. Wang Ning and other then shareholders of Beijing Pop Mart. Pursuant to the claim, Golden Eagle International claimed that (i) Beijing Pop Mart should cease to operate the claimed stores in certain exclusive areas; and (ii) Beijing Pop Mart should return an amount of approximately RMB117.2 million to Nanjing Pop Mart, which represented the alleged gross profits obtained by Beijing Pop Mart for the year ended December 31, 2019 from operating the claimed stores in the exclusive areas.

No provision in relation to this claim has been recognised in the consolidated financial statements, as the PRC legal adviser of the Company advised that the claim brought by Golden Eagle International is groundless, the likelihood that the claim will be decided in favour of Golden Eagle International is very low, the risk exposure of the Group from the claim is minimal and the claim will not have a material adverse impact on the Group’s operations and financial performance. The Group plans to vehemently defend itself in the court with the assistance of the PRC Legal adviser of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

As a pioneer and key promoter of pop toy culture in China, we sold over 50 million pop toy products in 2020. We strategically focus on the further development of our pop toy business to consistently implement our long-term established strategy and development direction. During the year, we remained to regard artists development, IP operation, consumer access and pop toy culture promotion as our major business focus.

Artists Development and IP Operation

IP operation as well as creation and design are essential to our products, which is the key driver for the development of Pop Mart. We continuously enrich our types of IP and launch products of diversified styles to meet the demands of different customers. During the year, the proportion of revenue from our top IPs was more balanced, and maintained a strong growth. As at the end of 2020, the sales of “one day of MOLLY” series, which were launched in August 2020, had exceeded RMB100 million. We continuously signed contracts with designers to launch new IP product series. For example, SKULLPANDA products were very popular among their fans immediately after their launch. On the first day of the launch of our Ancient Castle series, 276,000 products were sold. PDC (Pop Design Center), our in-house design team, also launched many popular IPs, such as the Sweet Bean series. In 2020, revenue from original IPs of PDC had exceeded RMB100 million. We are not only committed to the incubation of artist IPs but also cooperate with global well-known top IPs to launch product series, such as the Harry Potter product series and the Naruto product series. In 2020, we tried to launch an IP based on a real person for the first time. We launched the Choumate product series, which was well supported by the fans.

Consumer Access

– *Offline channels*

In 2020, we opened 76 new physical stores in Mainland China. The number of physical stores increased from 114 as at the end of 2019 to 187¹ as at the end of 2020. Our first overseas store was opened at an international trade center located in Gangnam-gu, Seoul, South Korea on September 5, 2020, and became popular among local pop toy lovers. This also marked the successful introduction of our brand in overseas market for the first time, thus gaining more fans for Pop Mart brands. In 2020, we opened 526 roboshops in Mainland China. The number of roboshops increased from 825 as at the end of 2019 to 1,351 as at the end of 2020.

– *Online channels*

During Tmall Singles Day², we recorded total sales³ of more than RMB142 million, which ranked first among toy stores at Tmall and became the first brand flagship store in Tmall toy sector listed in the Club for Stores Breaking \$100 Million Record on Tmall Singles Day. Pop Draw is a mini program independently invented and developed by us on WeChat platform, aiming to create fun and interesting shopping experience. In 2020, revenue amounted to RMB466 million, representing an increase of 72.0% from 2019.

– *Member operation*

By continuous channel expansion and IPs portfolio enhancement, through omni-channel member operation, the scale of user digitalization grew rapidly. As of December 31, 2020, the total number of registered members increased from 2.20 million as at the end of 2019 to 7.40 million. Among which, there were 5.20 million new registered members, the sales contributed by our members represents a 88.8% of our gross sales and a year-on-year increase of 9.9%.

¹ In 2020, due to the expiration of the lease and other commercial reasons, we closed 3 stores

² November 1, – November 11, 2020

³ GMV

Pop Toy Culture Promotion

Due to the Corona Virus Disease 2019 (“COVID-19”) pandemic, we only held the Shanghai Toy Show in 2020. The total area of the exhibition hall was nearly 20,000 square meters, attracting 500 designers and more than 300 pop toy brands to participate in the toy show. Once again, the number of visitors had exceeded 100,000.

By organizing industry forum, Pop Mart has been increasing its influence in pop toy industry. On November 7, 2020, we hosted the first pop toy industry forum in China. The White Paper on the Development Trend of Pop Toy Industry (《潮流玩具行業發展趨勢白皮書》) was published at the forum, and was widely concerned by industry peers and other industries.

To better promote the pop toy culture to the fans, Pop Mart published the first issue of our internal magazine “PLAYGROUND” for our privilege members in November 2020. We promoted the Pop Mart brand culture and pop culture trend through magazine in a formal and scarcity form.

FINANCIAL REVIEW

Revenue

Revenue of the Company increased from RMB1,683.4 million in 2019 to RMB2,513.5 million in 2020, representing a year-on-year increase of 49.3%.

– Revenue by channels

Our revenue is generated from: 1. retail stores; 2. roboshops; 3. online channels, including our Tmall flagship store, Pop Draw and other mainstream e-commerce platforms in China; and 4. wholesale channels and others, including distributors and bulk purchase corporate customers, as well as pop toy conventions.

	For the year ended December 31, 2020			For the year ended December 31, 2019		
	Revenue RMB'000	Gross profit margin	Proportion of revenue	Revenue RMB'000	Gross profit margin	Proportion of revenue
Retail stores	1,002,054	62.0%	39.9%	739,690	65.6%	43.9%
Online channels	951,875	66.4%	37.9%	539,201	68.9%	32.0%
Roboshops	328,679	72.3%	13.1%	248,554	70.7%	14.8%
Wholesales and others	230,863	44.7%	9.1%	155,989	36.7%	9.3%
– Mainland China	156,691	42.8%	6.1%	129,099	32.9%	7.7%
– Outside Mainland China	74,172	48.8%	3.0%	26,890	55.1%	1.6%
Total	2,513,471	63.4%	100.0%	1,683,434	64.8%	100.0%

Revenue from retail store sales increased by 35.5% from RMB739.7 million in 2019 to RMB1,002.1 million in 2020, primarily due to the addition of 76 new retail stores in 2020. Revenue from online sales increased by 76.5% from RMB539.2 million in 2019 to RMB951.9 million in 2020, primarily due to the increase in sales of Tmall store and Pop Draw, as well as the addition of new online channels including JD.com. Revenue from roboshop sales increased by 32.2% from RMB248.6 million in 2019 to RMB328.7 million in 2020, primarily due to the addition of 526 roboshops in 2020. Revenue from wholesales and others increased by 48.0% from RMB156.0 million in 2019 to RMB230.9 million in 2020, in particular, (1) revenue from wholesales and others in Mainland China increased from RMB129.1 million in 2019 to RMB156.7 million in 2020, primarily due to the increase in revenue generated from our distributor Nanjing Golden Eagle Pop Mart Trading Co., Ltd., which accounted for 62.5% of total revenue generated from distributors in Mainland China; (2) revenue from wholesales and others outside Mainland China increased from RMB26.9 million in 2019 to RMB74.2 million in 2020, primarily due to the expansion in overseas markets.

– **Revenue by IPs**

	For the year ended December 31, 2020		For the year ended December 31, 2019	
	Revenue	Proportion of revenue	Revenue	Proportion of revenue
Propriety products	2,136,196	85.0%	1,384,209	82.1%
Propriety IPs	979,940	39.0%	627,027	37.2%
– Molly	356,918	14.2%	456,018	27.1%
– Dimoo	315,248	12.5%	100,085	5.9%
– BOBO&COCO	67,415	2.7%	25,454	1.5%
– SKULLPANDA	39,065	1.6%		
– Other propriety IPs	201,294	8.0%	45,470	2.7%
Exclusive licensed IPs	711,904	28.3%	597,362	35.4%
– PUCKY	300,009	11.9%	315,318	18.7%
– The Monsters	204,828	8.1%	107,846	6.4%
– SATYR RORY	33,684	1.4%	63,086	3.7%
– Other exclusive licensed IPs	173,383	6.9%	111,112	6.6%
Non-exclusive licensed IPs	444,352	17.7%	159,820	9.5%
Overseas procurement and consignment	368,400	14.6%	279,986	16.6%
Others	8,875	0.4%	19,239	1.3%
Total	2,513,471	100.0%	1,683,434	100.0%

Pop Mart propriety products are our major product type. Revenue from propriety products, which contributed 85.0% of our total revenue in 2020, increased by 54.3% from RMB1,384.2 million in 2019 to RMB2,136.2 million in 2020. Revenue from propriety IPs increased by 56.3% from RMB627.0 million in 2019 to RMB979.9 million in 2020, primarily due to the increase in sales of Dimoo and the revenue contribution from sales of new IP SKULLPANDA. Revenue from exclusive licensed IPs increased by 19.2% from RMB597.4 million in 2019 to RMB711.9 million in 2020, primarily due to the increase in revenue from The Monsters and the increase in IPs. Revenue from non-exclusive licensed IPs increased by 178.1% from RMB159.8 million in 2019 to RMB444.4 million in 2020, primarily due to the sales of new series of products and the increase in IPs.

– *Operating revenue of stores and roboshops by geographic regions*

Retail stores by city tiers

City tier	For the year ended December 31, 2020		For the year ended December 31, 2019	
	Number of retail stores	Revenue from retail stores (RMB'000)	Number of retail stores	Revenue from retail stores (RMB'000)
First-tier cities ⁴	81	499,210	54	444,619
New first-tier cities ⁵	56	289,139	36	205,976
Second-tier and other cities ⁶	50	213,705	24	89,095
Total	187	1,002,054	114	739,690

Roboshops by city tiers

City tier	For the year ended December 31, 2020		For the year ended December 31, 2019	
	Number of roboshops	Revenue from roboshops (RMB'000)	Number of roboshops	Revenue from roboshops (RMB'000)
First-tier cities ⁴	447	119,667	304	120,496
New first-tier cities ⁵	453	107,149	292	78,445
Second-tier and other cities ⁶	451	101,863	229	49,613
Total	1,351	328,679	825	248,554

Breakdown of revenue from online sales

	For the year ended December 31, 2020		For the year ended December 31, 2019		Increase
	Revenue (RMB'000)	Proportion of revenue	Revenue (RMB'000)	Proportion of revenue	
Revenue from Pop Draw	466,364	49.0%	271,214	50.3%	72.0%
Revenue from Tmall flagship store	406,110	42.7%	251,499	46.6%	61.5%
Revenue from JD.com flagship store	36,173	3.8%	–	0.0%	100%
Revenue from other e-commerce platforms	43,228	4.5%	16,488	3.1%	162.2%
TOTAL	951,875	100.0%	539,201	100.0%	76.5%

⁴ Refer to first-tier cities in Mainland China, including Beijing, Shanghai, Guangzhou and Shenzhen

⁵ Refer to new first-tier cities in Mainland China, including Chengdu, Chongqing, Hangzhou, Wuhan, Xian, Zhengzhou, Qingdao, Changsha, Tianjin, Suzhou, Nanjing, Dongguan, Shenyang, Hefei and Foshan

⁶ Refer to cities other than first-tier cities and new first-tier cities in Mainland China

Online revenue sources of Pop Mart include Tmall flagship store, Pop Draw, JD.com flagship store and other online channels. Online revenue increased by 76.5% from RMB539.2 million in 2019 to RMB951.9 million in 2020. In particular, revenue from Pop Draw increased by 72.0% from RMB271.2 million in 2019 to RMB466.4 million in 2020, while revenue from Tmall flagship store increased by 61.5% from RMB251.5 million in 2019 to RMB406.1 million in 2020. The increase was primarily due to the stronger brand influence and the increase in members. JD.com flagship store was a channel newly added in 2020.

Profitability

– *Costs of sales*

Our costs of sales increased by 55.0% from RMB593.1 million in 2019 to RMB919.4 million in 2020, primarily due to the business expansion, and such increase was in line with the increase in revenue. The increase was primarily due to (1) the increase in costs of goods from RMB488.0 million in 2019 to RMB748.5 million in 2020, which was mainly due to the increase in sales; and (2) design and license fees increased from RMB48.4 million in 2019 to RMB62.7 million in 2020, which was mainly due to the increase in revenue generated from our propriety products and the increasing proportion of such revenue.

– *Gross profit*

Our gross profit increased by 46.2% from RMB1,090.3 million in 2019 to RMB1,594.1 million in 2020, primarily due to the increase in revenue. Our gross profit margin dropped from 64.8% in 2019 to 63.4% in 2020, primarily due to the slight decline in gross profit margin of our Pop Mart propriety products.

Gross profit from our Pop Mart propriety products increased by 48.8% from RMB986.2 million in 2019 to RMB1,467.9 million in 2020, primarily due to the increase in revenue from Pop Mart brand products. Gross profit margin of Pop Mart brand products dropped from 71.2% in 2019 to 68.7% in 2020, primarily due to the increasing complexity of product production as we enhance the quality of our products, as well as the decline in gross profit margin as a result of the rise in raw material costs.

Gross profit from third-party products increased by 30.7% from RMB103.8 million in 2019 to RMB135.7 million in 2020, primarily due to the increase in revenue from third-party products as a result of our business expansion. Gross profit margin of third-party products remained relatively stable, which dropped from 37.1% in 2019 to 36.8% in 2020.

– *Distribution and selling expenses*

Our distribution and selling expenses increased by 73.2% from RMB363.8 million in 2019 to RMB630.1 million in 2020, primarily due to (1) the increase in employee benefit expenses from RMB79.3 million in 2019 to RMB112.8 million in 2020, mainly due to the increase in number of sales personnel from 837 in 2019 to 1,537 in 2020 primarily for supporting the expansion of our retail stores and roboshops network; (2) the increase in depreciation of right-of-use assets from RMB56.2 million in 2019 to RMB121.1 million in 2020, mainly due to the increase in number of retail stores from 114 as of December 31, 2019 to 187 as of December 31, 2020 for supporting our business expansion and fulfillment of the increasing demands on our products; and (3) the increase in transportation and logistics expenses from RMB32.9 million in 2019 to RMB105.6 million in 2020, primarily due to the expansion in our online channel sales and the selection of logistics companies that offer faster services for better shopping experience of our customers.

– ***General and administrative expenses***

Our general and administrative expenses increased by 96.5% from RMB142.5 million in 2019 to RMB280.0 million in 2020, primarily due to (1) the increase in employee benefit expenses from RMB76.2 million in 2019 to RMB130.2 million in 2020, mainly due to the increase in number of administrative and design development personnel from 415 in 2019 to 793 in 2020 for supporting our product development and business expansion, as well as the rise in remuneration level for attracting talents; and (2) listing expenses of RMB44.0 million incurred in the initial public offering in 2020.

– ***Net impairment losses on financial assets***

Our net impairment losses on financial decreased from RMB3.1 million in 2019 to -RMB0.4 million in 2020, primarily due to greater efforts put in the management of aging of trade and other receivables.

– ***Other income***

Our other income increased by 167.1% from RMB17.0 million in 2019 to RMB45.4 million in 2020, primarily due to (1) the increase in government grants of RMB22.0 million; and (2) the increase in IP license fee income of RMB6.6 million from cooperation projects with Dove, L’Oréal and other brands.

– ***Other (losses)/gains, net***

We recorded other gains, net of RMB0.8 million in 2019, and other losses, net of RMB11.1 million in 2020, primarily due to the donation of RMB10.0 million to the special COVID-19 foundation of Wuhan Charity Federation, as well as the donation of RMB1.0 million to support poverty alleviation works in Karakax County.

– ***Operating profit***

As a result of the above, our operating profit increased by 20.0% from RMB598.8 million in 2019 to RMB718.8 million in 2020.

– ***Share of profit/loss of investments accounted for using equity method***

The results of Nanjing Golden Eagle Pop Mart Co., Ltd. (“**Nanjing Golden Eagle Pop Mart**”) remained relatively stable. Our share of profit of investments accounted for using equity method decreased by 22.0% from RMB5.0 million in 2019 to RMB3.9 million in 2020.

– ***Finance expenses, net***

Our finance expenses, net, increased by 66.7% from RMB5.4 million in 2019 to RMB9.0 million in 2020, primarily due to the corresponding increase in lease liabilities as a result of the increase in retail stores.

– ***Income tax expense***

Our income tax expense increased from RMB147.3 million in 2019 to RMB184.1 million in 2020 as a result of the increase in profit before income tax. Our effective tax rate rose from 24.6% in 2019 to 26.0% in 2020, primarily due to the losses recorded by certain subsidiaries in 2020, resulting in rise in effective tax rate.

– ***Profit for the year***

As a result of the above, our profit for the year increased by 16.0% from RMB451.1 million in 2019 to RMB523.3 million in 2020.

– ***Non-GAAP financial indicators***

The non-IFRS adjusted net profit has not been calculated in accordance with the IFRS, thus it is deemed as non-IFRS financial indicator. The non-IFRS adjusted net profit refers to the net profit after excluding listing expenses, share-based payment, expenses in relation to the redesignation of ordinary shares as preference shares and changes in fair values of convertible redeemable preference shares, while the non-IFRS adjusted net profit margin refers to the non-IFRS adjusted net profit divided by revenue. We are of the view that such information is useful for investors to compare the results of the Group, provided that the results of the continuing operation or cash flows of the Group are not being affected, and enable investors to take into consideration of the indicators used by the management when assessing the results of the Group. Investors shall not treat non-IFRS financial indicator as an alternative or better version of the results of the Group prepared in accordance with IFRS. In addition, not all companies will adopt the same way in calculating such non-IFRS financial indicators. Hence, similar measurements made by other companies may not be comparable.

The following table set out the reconciliation of non-IFRS financial indicators for the respective years:

	For the year ended	
	December 31,	
	2020	2019
	RMB'000	RMB'000
Profit for the year	523,312	451,118
Adjustments:		
Listing expenses	44,024	16,538
Share-based payment		1,467
Expenses in relation to the redesignation of ordinary shares as preference shares	16,910	–
Changes in fair value of convertible redeemable preference shares	6,260	–
	<hr/> 590,506	<hr/> 469,123
Non-IFRS adjusted net profit		
Non-IFRS adjusted net profit margin	23.5%	27.9%

The management is of the view that listing expenses, expenses in relation to the redesignation of ordinary shares as preference shares and changes in fair value of convertible redeemable preference shares are one-off in nature that are related to procedures prior to listing and the initial public offering, which will not be incurred after listing. In addition, share-based payment expenses, expenses in relation to the redesignation of ordinary shares as restricted shares and changes in fair value of convertible redeemable preference shares are non-cash items, which do not directly reflect our business operation. Hence, through eliminating the effects of such items on calculation of non-IFRS adjusted net profit, relevant operating performance can be better reflected, and it would be more convenient to compare operating performance in different years.

Current assets, Financial Resources and Capital Expenditures

– *Current assets and current liabilities*

Our net current assets significantly increased from RMB335.0 million as of December 31, 2019 to RMB5,590.6 million as of December 31, 2020. The increase was primarily due to (1) the increase in cash and cash equivalents of RMB5,355.6 million, mainly due to the proceeds raised from the initial public offering; (2) the increase in inventories of RMB129.1 million, mainly due to the increase in product inventories to meet with the increasing product demands as a result of business expansion; and (3) was partially offset by the decrease in financial assets at fair value through profit and loss of RMB50.0 million, mainly due to the disposal of our investment in financial instruments.

– *Trade receivables*

Trade receivables represent outstanding amounts receivable by us from our customers in the ordinary course of business. Most of the trade receivables are related to bills on payment platforms such as Alipay or WeChat Pay. Receivables from these payment platforms are generally collected in short term. Our trade receivables increased from RMB45.6 million as of December 31, 2019 to RMB78.3 million as of December 31, 2020. The increase was primarily due to the increase in third-party (including shopping malls, wholesale customers and e-commerce platforms) payment, reflecting our trade receivables in a relative period of time. Trade receivables turnover days increased from 6 days in 2019 to 9 days in 2020.

– *Other receivables*

Other receivables mainly represent deposits paid to shopping malls in respect of our retail stores and roboshops. Other receivables increased from RMB59.7 million as of December 31, 2019 to RMB90.8 million as of December 31, 2020, mainly due to the increase in deposits, which was in line with the expansion in our retail store and roboshop network.

– *Inventories*

Our inventories comprise finished goods. Our inventories increased from RMB96.3 million as of December 31, 2019 to RMB225.4 million as of December 31, 2020. The increase was primarily due to the increase in product inventories to meet with the increasing product demands. Inventory turnover days increased from 46 days in 2019 to 78 days in 2020, primarily due to increase in demand for our products as a result of the business expansion and the increase in IPs and new products, thus resulting in corresponding increase in product inventories.

– *Prepayments and other current assets*

Prepayments and other current assets primarily comprise prepayments for inventories, prepayments for design fees, prepayments for property, plant and equipment, prepayments for short-term leases, deductible value-added input tax and others. Our prepayments and other current assets increased from RMB140.4 million as of December 31, 2019 to RMB177.9 million as of December 31, 2020, primarily due to (1) the increase in prepayments for design fees of RMB35.7 million as a result of the increase the number of products; and (2) the decrease in prepayments to suppliers of RMB9.3 million.

– ***Cash and cash equivalents***

Our cash and cash equivalents primarily comprise cash at bank. Cash and cash equivalents increased from RMB324.6 million as of December 31, 2019 to RMB5,680.2 million as of December 31, 2020, primarily due to the net proceeds raised from the initial public offering (the “**Net Proceeds**”) and our business growth.

– ***Trade payables***

Trade payables primarily represent our obligation to pay for merchandise from suppliers in the ordinary course of business. Trade payables increased from RMB49.4 million as of December 31, 2019 to RMB115.8 million as of December 31, 2020, primarily due to the increase in procurement amount as a result of our business growth, which in turns resulted in the increase in balance of payables to suppliers. Our trade payable turnover days increased from 29 days in 2019 to 40 days in 2020, primarily due to suppliers generally willing to grant a longer credit period as we have been increasing our procurement amount.

– ***Other payables and accruals***

Our other payables and accruals consist mainly of (1) wages, salaries and other employee benefits, (2) accrual expenses, (3) payables for property, plant and equipment and intangible assets, (4) other tax payables, (5) payables for listing expense, (6) payables for short-term and variable rental expenses, (7) amount received on behalf of merchants on conventions, and (8) others. Our other payables and accruals increased from RMB122.1 million as of December 31, 2019 to RMB202.3 million as of December 31, 2020, primarily due to (1) the increase in payables for property, plant and equipment and intangible assets by RMB24.4 million as a result of expansion in retail stores; (2) the increase in listing expenses of the initial public offering of RMB22.2 million; (3) the increase in other tax payables of RMB17.1 million as a result of business growth; (4) the increase in accrual expenses of RMB20.1 million as a result of the expansion in online channels in response to the increase in logistics fee and platform service fee payables.

– ***Property, plant and equipment***

Our property, plant and equipment consist mainly of (1) roboshops, (2) moulds, (3) equipment and others and (4) leasehold improvement. Our property, plant and equipment increased from RMB103.6 million as of December 31, 2019 to RMB238.3 million as of December 31, 2020, primarily due to (1) the increase in leasehold improvement of RMB65.5 million as a result of the expansion in our retail store network, (2) the increase in moulds of RMB51.2 million as a result of the expansion in our product portfolio and (3) the increase in roboshops of RMB14.0 million as a result of the expansion in our roboshop network.

– ***Intangible assets***

Our intangible assets consist mainly of (1) licensed IPs, (2) intellectual property rights, including our propriety IPs and (3) software. Our intangible assets increased from RMB18.6 million as of December 31, 2019 to RMB92.7 million as of December 31, 2020, primarily due to the new licensed IPs obtained in 2020.

– ***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 date over the shorter period of useful life of the underlying asset and lease term. Our right-of-use assets increased from RMB178.9 million as of December 31, 2019 to RMB287.8 million as of December 31, 2020, due to the expansion in our retail store and roboshop network.

– ***Bank borrowings***

We do not have any bank borrowings as of December 31, 2020.

Pledge of Assets

We do not have any pledged assets as of December 31, 2020.

Gearing Ratio

As at December 31, 2020, our gearing ratio is 12.1% as compared with the gearing ratio of 44.4% as at December 31, 2019. The gearing ratio is calculated by dividing total liabilities by total assets and then multiplying by 100%.

Contingency

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.

On August 28, 2020, we received a court summons dated August 19, 2020 in relation to a claim brought by Golden Eagle International Retail Group (China) Co., Ltd. (金鷹國際商貿集團(中國)有限公司) as a shareholder on behalf of Nanjing Golden Eagle Pop Mart at the Jiangsu Nanjing Intermediate People's Court (江蘇省南京市中級人民法院) against Beijing Pop Mart Culture & Creative Co., Ltd. As we have been advised by our PRC legal adviser that the claim brought by Golden Eagle International is groundless, the likelihood that the claim will be decided in favor of Golden Eagle International is very low, the risk exposure of the Company from the claim is minimal and the claim will not have a material adverse impact on our operations and financial performance, as such, no provision in relation to this claim has been recognized in the consolidated financial statements.

Foreign Exchange Risk Management

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 historical record period.

Capital Expenditures

Our capital expenditures consist of (1) purchases of property, plant and equipment and (2) purchases of intangible assets.

	For the year ended	
	December 31,	
	2020	2019
	(RMB'000)	(RMB'000)
Purchases of property, plant and equipment	175,984	104,951
Purchases of intangible assets	47,608	12,551
	<hr/>	<hr/>
Total	223,592	117,502
	<hr/> <hr/>	<hr/> <hr/>

Human Resources

As of December 31, 2020, we had a total of 2,330 employees, including 1,316 sales personnel and 793 administrative and development personnel. For the year ended December 31, 2020, we incurred staff costs (including remuneration, payrolls, allowances and benefits) of RMB243.0 million.

Future Plans on Significant Investments

As of December 31, 2020, we do not hold any significant investment. To strengthen our position as the pioneer and key promoter of pop toy culture in China, we plan to utilise the Net Proceeds to carry out certain expansion projects. Details for the expansion projects are set out in the paragraph headed “Use of Net Proceeds From Listing” in this announcement and the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated December 1, 2020 (the “**Prospectus**”).

Material Acquisitions and Disposals

During the Reporting Period, we had not conducted any material acquisition or disposal of subsidiaries, associates and joint ventures.

Subsequent Event

As at the date of this announcement, the Group has no significant events occurred after the Reporting Period which require additional disclosures or adjustments.

OUTLOOK

IP is at the core of our business. Through our innovative products, delicate design and quality services, we aim to offer consumers with joyful pop culture and artistic experience. At the same time, by increasing our brand value, we will enhance the brand loyalty of users on Pop Mart products, thereby maintaining our strong market position and competitiveness.

We will strive to enrich our IP types, expand our IP base, introduce more products under the head series, and increase types of pop toys in addition to blind boxes.

We will strive to expand our channel network so as to reach more users. In addition, we will continue to strengthen our operating capability, improve user shopping experience, enhance member expansion and member marketing, promote innovative retail digitalized operation, reach and retain users through diversified measures, and offer customized, better services.

We will continue to promote pop toy culture through more diversified means, influence the whole industry continuously, offer more benefits for our privilege members, increase the stickiness of fans, as well as enhance the cultural identity and brand awareness of fans.

USE OF NET PROCEEDS FROM LISTING

The Shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on December 11, 2020 (the “**Listing Date**”) by way of global offering, and the total Net Proceeds received by the Company from the global offering (including the full exercise of the over-allotment option) amounted to approximately HK\$5,781.7 million after deducting professional fees, underwriting commissions and other related listing expenses.

As stated in the Prospectus, the intended uses of the Net Proceeds are set out below:

Intended use of Net Proceeds	Allocation of Net Proceeds	Percentage of total Net proceeds	Amount of Net Proceeds utilized up to December 31, 2020	Balance of Net Proceeds unutilized as at December 31, 2020	Intended timetable for use of the unutilized Net Proceeds
(i) To finance part of our expansion plans of consumer access channels and overseas markets	HK\$1,734.5 million	30.0%	28.5	1,706.0	Before December 31, 2024
(a) for opening new retail stores	HK\$954.0 million	16.5%	24.2	929.8	
(b) for opening new roboshops	HK\$346.9 million	6.0%	3.2	343.6	
(c) for expanding our business into overseas markets	HK\$433.7 million	7.5%	1.0	432.6	
(ii) To fund our potential investments in, acquisitions of and strategic alliance with companies along the value chain of our industry	HK\$1,561.1 million	27.0%	–	1,561.1	Before December 31, 2024
(iii) To invest in technology initiatives to strengthen our marketing and fan engagement efforts, and to enhance the digitalization of our business	HK\$867.2 million	15.0%	3.3	864.0	
(a) for talent recruitment	HK\$173.5 million	3.0%	0.1	173.4	Before December 31, 2023
(b) for acquiring relevant software and hardware to enhance digitalization and establish information systems for digital marketing, customer services, logistics, products, supply chain, warehousing, membership, transactions and store management and marketing	HK\$346.9 million	6.0%	0.2	346.7	Before December 31, 2024
(c) for optimizing our online marketing efforts, which primarily consist of strategically placed advertisement, icons, links and news feeds on third party promotional platforms	HK\$346.9 million	6.0%	3.0	343.9	Before December 31, 2024

Intended use of Net Proceeds	Allocation of Net Proceeds	Percentage of total Net proceeds	Amount of Net Proceeds utilized up to December 31, 2020	Balance of Net Proceeds unutilized as at December 31, 2020	Intended timetable for use of the unutilized Net Proceeds
(iv) To expand our IP pool	HK\$1,040.7 million	18.0%	0.7	1,040.0	
(a) for enhancing our ability to identify outstanding artists	HK\$260.3 million	4.5%	0.7	259.6	Before December 31, 2024
(b) for recruiting talented designers to join our in-house design team to enhance our in-house original IP development capability by providing competitive salary	HK\$86.6 million	1.5%	0.1	86.5	Before December 31, 2023
(c) for acquisitions of popular Ips from to expand our IP pool	HK\$693.9 million	12.0%	–	693.9	Before December 31, 2024
(v) Working capital and general corporate purposes	HK\$578.17 million	10.0%	149.0	429.2	Before December 31, 2023

The Group will utilise the Net Proceeds of the initial public offering in accordance with the intended purposes as set out in the Prospectus.

DIVIDEND

The Board recommended the payment of a final dividend of RMB14.94 cents per ordinary share of the Company issued for the year ended December 31, 2020. The proposed dividend payment is subject to the approval by the shareholders of the Company (the “Shareholders”) at the forthcoming annual general meeting (the “AGM”) to be held on June 1, 2021 and is payable in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People’s Bank of China on June 1, 2021. Upon Shareholders’ approval, such dividend will be paid on July 30, 2021 to the Shareholders whose names shall appear on the register of members of the Company on Monday, June 7, 2021.

CLOSURE OF THE REGISTER OF MEMBERS

The Company will hold the AGM on Tuesday, June 1, 2021. The register of members of the Company will be closed from Thursday, May 27, 2021 to Tuesday, June 1, 2021, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered, and Shareholders whose names on the register of members of the Company on Thursday, May 27, 2021 shall have the right to attend and vote at the AGM. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, May 26, 2021.

The register of members of the Company will also be closed from Monday, June 7, 2021 to Wednesday, June 9, 2021, both days inclusive, in order to determine the entitlement of the Shareholders to receive the final dividend, during which period no share transfers will be registered. To qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, June 4, 2021.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with all applicable code provisions of the CG Code for the period from December 11, 2020 (i.e. the Listing Date) to December 31, 2020, except for deviation from code provision A.2.1 as explained under the paragraph headed "Chairman and Chief Executive Officer" below.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be segregated and should not be performed by the same individual. According to the current structure of the Board, the positions of the Chairman and Chief Executive Officer of the Company are held by Mr. Wang Ning.

The Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) decision to be made by the Board requires approval by at least a majority of the Directors and that the Board comprises three independent non-executive Directors out of nine Directors, and the Board believes there is sufficient check and balance on the Board; (ii) Mr. Wang Ning and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that they act for the benefit and in the best interests of the Company and will make decisions of the Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Group. Moreover, the overall strategic and other key business, financial and operational policies of the Group are made collectively after thorough discussion at both the Board and senior management levels. Finally, as Mr. Wang Ning is our principal founder, the 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 the Group and enables more effective and efficient overall strategic planning for the Group. The Board will continue to review the effectiveness of the corporate governance structure of the Group in order to assess whether separation of the roles of chairman and chief executive officer is necessary.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all directors of the Company (the "**Directors**"), each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the period from December 11, 2020 (i.e. the Listing Date) to December 31, 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from December 11, 2020 (i.e. the Listing Date) to December 31, 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee had, together with the Board, reviewed the accounting standards and practices adopted by the Group and the annual results for the year ended December 31, 2020.

SCOPE OF WORK OF AUDITOR

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated balance sheet and the related notes thereto for the year ended December 31, 2020 as set forth in this announcement have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set forth in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standard on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

PUBLICATION OF THE ANNUAL RESULTS AND 2020 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.popmart.com), and the 2020 Annual Report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
POP MART INTERNATIONAL GROUP LIMITED
Wang Ning

Executive Director, Chairman of the Board and Chief Executive Officer

Hong Kong, March 26, 2021

As at the date of this announcement, the executive Directors are Mr. Wang Ning, Ms. Yang Tao, Ms. Liu Ran and Mr. Si De, the non-executive Directors are Mr. Tu Zheng and Mr. He Yu, and the independent non-executive Directors are Mr. Zhang Jianjun, Mr. Wu Liansheng and Mr. Ngan King Leung Gary.