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COMPANY: MINISO Group Holding Limited | NYSE: MINISO
INDUSTRY: Retail

On July 26, 2022, we [published](#) our investment opinion (the “[Report](#)”) on MINISO Group Holding Limited (the “[Company](#)” or “[MINISO](#)”), detailing an extensive investigation which indicated that hundreds of MINISO’s supposedly independent franchise stores are secretly owned and operated by MINISO executives or individuals closely connected to the chairman.

In response, MINISO announced the formation of an independent committee to investigate our claims. **Less than 48 hours later**, the Company [released](#) its “preliminary findings.” This must surely set a record for the shortest turnaround on “preliminary findings” of an investigation in market history.

First, it is laughable that any meaningful investigation could make any findings (preliminary or conclusive) in such a short time. Furthermore, any real investigation of the evidence should be done not by the Company, but by truly independent professional audit and legal advisors, including MINISO’s auditors who are currently in the process of reviewing the Company’s annual results. Substantively, not only do we find the response hasty and incomplete, but it glosses over damning contradictory evidence that MINISO would rather ignore.

1. MINISO Stores Owned by Executives and Insiders Connected to the Chairman

MINISO claims that 99% of its stores in China, its key market, are operated by franchisees independent from the Company. In our report, we highlighted hundreds of stores whose registered owners are either MINISO executives or individuals closely connected to the Company’s chairman.

In its Response, MINISO claims that “some Company employees may have found it necessary or expedient to provide their names and contact information to the local authorities.” MINISO says that these “unapproved practices ... have been substantially curtailed.” We think this is nonsense.

Local Chinese filings do not merely show an administrative affiliation between MINISO employees and the supposedly independent stores. They show ownership. For example, in our report we highlighted Huang Zheng, MINISO’s Vice President and Overseas Chief Operating Officer. Huang is so important to MINISO that he was included in the Company’s IPO presentation.



Source: MINISO IPO Slide Deck

First, we would think that Huang, an Overseas COO and a VP, is too senior to be the employee that assists MINISO franchisees with bland administrative tasks like store registration. But more importantly, the Chinese filings do not list Huang as a mere administrator, but rather the owner operator.

Chinese Corporate Registry Records

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#批发和零售业 #零售业 #广东省 #深圳市 #福田区

Operator: Huang Zheng

经营者: 黄铮 关联18家企业 >统一社会信用代码: 92440300L84616568M 编辑企业信息电话: 18022381286 同电话企业 99+

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地址: 深圳市福田区福田街道福华三路与金田路交汇处卓越世纪中心3... 附近企业 复制

Map Data



Same Address

Source: <https://amap.com/place/B0FFHDU654>,
<https://www.qcc.com/firm/d50ee6805ee6c561e643296b951cf956.html>

According to filings with the Chinese government, the MINISO executive owns the store. And he was not alone. Our report contains many examples of supposedly independent franchise stores that appear to be secretly owned and operated by MINISO executives or individuals closely connected to the chairman. Even if a franchisee needed help with registration process, it would make no sense for a MINISO employee to be the owner of record on Chinese government filings.

Notably, local Chinese media independently confirmed our findings for the insiders they checked. After we released our report, [Laohu Caijing](#), a Chinese financial media company, [performed](#) the same exercise using another Chinese corporate database and found that Lin Zongyou, an individual with close ties with the chairman, owns dozens of companies that can be matched with MINISO stores.

黄铮并非个例，天眼查信息显示，名创优品股份有限公司法人林宗友名下同样拥有数十家名字带有“百货店”的公司，这些公司亦均可与名创优品的线下店铺一一对应。

Huang Zheng is not an exception. According to the information from Tianyancha, Lin Zongyou, the legal person of MINISO Corporation, also owns dozens of companies with "department stores" in their names. These companies can also be matched with MINISO stores.

Source: <https://finance.sina.com.cn/stock/hyyj/2022-07-28/doc-imizmscv3922819.shtml>

MINISO also conveniently ignored a massive piece of corroborating evidence for our thesis. The Company's response never mentions (likely because it's so damning) that in 2019, MINISO reportedly told a credible Chinese media outlet that 40% of MINISO stores in China are owned by the Company.

第一财经从名创优品内部了解到，其门店基本都设在大型购物中心，或人流密集的商业步行街，不同位置的门店年租金不同，几十万到上百万不等。一间250平方米左右的门店的员工基本配置为6~7个人。装修和日常成本也是因门店而异，包括门店所属地区和位置、面积、人工成本等因素差异。名创优品已进入盈利状态，年营业收入高速增长，综合利润率8%左右。以深圳福田星河COCO Park购物中心漫威IP黑金店为例，其月营业额超300万，月坪效12000元，店铺实现日均客单量超过1000笔，日均客单价近100元。名创优品目前直营和加盟的比例约是4: 6。其加盟模式是“投资型加盟”，投资者不用参与门店日常经营，所有加盟店由名创优品总部统一运营管理。最关键的是，加盟商每日可获得所加盟门店前日营业额的38%（食品为33%）现金分账。The current ratio between corporate-owned stores and franchise-owned stores is 4:6

Source: <https://www.yicai.com/news/100388597.html>

The article is highly credible as it appeared in the [financial news arm](#) of the Shanghai Media Group, a state-owned enterprise. This account not only **directly contradicts MINISO's disclosures to investors** but also undermines the Company's weak response.

2. Chairman's Undisclosed Dealings with MINISO

In our report, we pointed out that MINISO formed a BVI-based joint venture between the Company and the chairman to build a new headquarters in China, only to buy out the chairman's 80% interest for hundreds of millions of RMB months later. Even though it owned only 20% of the JV, records show that the Company contributed all of the cash for the land deposit. We highlighted Chinese records showing the absence of any additional capital contributions prior to the buyout, suggesting that the buyout of the chairman's interest was likely money for nothing.

In its response, MINISO admitted that its chairman did not contribute anything to the deposit of RMB 346 million, but claims that he subsequently contributed to the JV, including funds he supposedly borrowed from an unnamed third party. Why the chairman would borrow money for it to supposedly sit idly in a JV is never explained.

In exchange for his 80% stake in the JV, Mr. Ye contributed the following to the JV:

- (i) On February 2, 2021, YGF MC Limited, a company solely owned by Mr. Ye, contributed USD 34.5 million (~RMB 222.95 million) to the JV;
- (ii) On February 4, 2021, Mr. Ye, through another company owned and controlled by him, obtained a loan in the amount of RMB 319.9 million and contributed the loan proceeds to the JV; and
- (iii) On May 25, 2021, YGF MC Limited contributed another RMB 200 million to the JV.

As the foregoing shows, Mr. Ye contributed a total of approximately RMB742.88 million to the JV. When MINISO

Source: [MINISO Response](#)

First, these alleged capital injections do not appear in the Chinese corporate registry. The money was supposedly contributed to buy, build and develop a Company headquarters in China. If the chairman contributed money, why did it not appear in the official Chinese records of capital contributions?

According to corporate data publicly available in the [National Enterprise Credit Information Publicity System](#), the paid-in capital of the JV's Chinese subsidiary remained at RMB 345.7 million (the initial deposit amount) until the day after MINISO acquired the chairman's 80% share.

企业名称: 名优产业投资(广州)有限公司 Mingyou Industrial Investment (Guangzhou) Co., Ltd

■ 股东及出资信息

序号	股东	Subscribed Capital (RMB)		Paid-in Capital (RMB 10K)		Paid-in Date	实缴出资方式
		认缴出资额(万元)	认缴出资时间	实缴出资额(万元)	实缴出资时间		
1	YGF Investment V Hong Kong Limited	100000万人民币元	2030年12月31日	34571万人民币元	2020年12月11日		货币
		RMB 1 billion		RMB 345.7 million	Dec. 11, 2020		

Source: [National Enterprise Credit Information Publicity System](#)

To be clear, paid-in capital represents the actual amount of money that a company has received from shareholders. Any change to the paid-in capital is registered with the local government and is generally indicative of whether and to what extent shareholders have funded the entity.

If the chairman funded the project with additional capital in the interim, why did it not appear in the corporate registry?

MINISO's response also skirts the underlying issue. In our Report, we asked if MINISO wanted to buy a new headquarters in China, why not buy the land directly? Why route the land purchase through the chairman? Moreover, if the money was for a headquarters in China, why would MINISO form an offshore JV in the BVI to purchase the land and develop property in China? In our experience, Chinese companies routinely route a domestic land purchase through an offshore JV in an opaque Caribbean jurisdiction in order to funnel Company money to insiders. Otherwise, why wouldn't a Chinese company just buy land in China through a Chinese entity?

MINISO also failed to address a critical part of our research. Based on Chinese corporate records, we identified four other property developments that are currently owned by the chairman. Although these developments have not, to our knowledge, been disclosed to investors, they are clearly MINISO projects.

For example, MINISO's Chinese website issued a press release in January 2020 announcing a groundbreaking ceremony for a new MINISO Industrial Park, a RMB 10 billion research and logistics center. Both MINISO executives and local government officials attended the ceremony.

2020年1月4日，恰逢辞旧迎新、万象更新之时，名创优品肇庆市高新区一带一路产业园项目宣布正式动土，

总投资过百亿。肇庆市高新区党工委委员、纪工委书记罗文军，肇庆市高新区招商局钟怡伟，名创优品创始人兼首

席执行官叶国富等数十位政府领导及集团高管、项目相关负责人出席了此次动土仪式。

On January 4, 2020, MINISO announced the official groundbreaking of the MINISO One Belt One Road Industrial Park project in the Zhaoqing High-tech Zone, with a total investment of more than RMB 10 billion. Luo Wenjun, member of the Party Working Committee and secretary of the Disciplinary Work Committee of Zhaoqing High-tech Zone, Zhong Yiwei, Investment Promotion Bureau of Zhaoqing High-tech Zone, Ye Guofu, the founder and CEO of MINISO, and dozens of government leaders, company executives, and the project-related persons attended the groundbreaking ceremony.



Source: <https://www.miniso.cn/News/Details?id=100000228647363>

This is clearly a MINISO project, as it is disclosed on MINISO's Chinese website, and the groundbreaking ceremony was attended by MINISO executives. **The Company's logo was even on the banner behind the ribbon cutting ceremony.** To our knowledge, however, this billion-dollar investment project is not disclosed in any of MINISO's SEC or Hong Kong regulatory filings. In fact, Chinese corporate records show that this Company project is not even owned by MINISO, but by the chairman.

Although these developments appear purposely built for the Company, the assets are held through a complicated offshore BVI structure designed to route any subsequent capital flows offshore where the recipients and amounts are far more difficult to track. Much like the headquarters deal discussed above, we suspect that they are structured through BVI intermediaries to allow insiders to funnel more money from the public company through future sales of these developments to MINISO.

3. Retailer in Decline: Shrinking Revenues, Store Closures and Falling Franchise Fees

In our report, we detailed independent evidence, including archived disclosures on MINISO's Chinese website, reports in Chinese media and interviews with former employees, indicating that MINISO is a retail brand in serious peril. We highlighted disclosures from MINISO's own website showing declining revenues, media reports of pre-Covid store closures and archived disclosures on MINISO's Chinese website in which the Company advertised that franchise fees fell 63% in the past two years.

Notably in its response, MINISO admitted that it reduced franchise fees to attract more franchisees, stating it was part of an expansion strategy. But again, this misses the point. Healthy retail brands do not need to slash franchise fees to attract business, and this was no mere discount. MINISO's disclosures show that the Company slashed franchise fees by a whopping 63%. MINISO's financial performance is supposedly reliant on its ability to continue to attract franchisees, yet such dramatic fee reductions show, in our opinion, that MINISO's retail model is becoming increasingly unattractive to the market.

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