Application Proof of

KK Group Company Holdings Limited

(the "**Company**")

(Incorporated in the Cayman Islands with limited liability)

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KK Group Company Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under the [REDACTED]	**:**	**[REDACTED] Shares (subject to the [REDACTED])**
Number of [REDACTED]	**:**	**[REDACTED] Shares (subject to reallocation)**
Number of [REDACTED]	**:**	**[REDACTED] Shares (subject to reallocation and the [REDACTED])**
Maximum [REDACTED]	**:**	**HK$[REDACTED] per Share plus brokerage of 1%, SFC transaction levy of 0.0027%, the Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015% (payable in full on application, subject to refund)**
Nominal value	**:**	**US$[0.000004] per Share**
[REDACTED]	**:**	**[REDACTED]**

***Sole Sponsor,* [REDACTED], [REDACTED], [REDACTED] *and* [REDACTED]**

Morgan Stanley

A copy of this document, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available on Display" in Appendix V, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this document or any of the other documents referred to above.

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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 obligations of the [**REDACTED**] under the [**REDACTED**] are subject to termination by the [**REDACTED**] (for itself and on behalf of the [**REDACTED**]) if certain grounds arise prior to 8:00 a.m. on the [**REDACTED**]. See "[**REDACTED**]" in this document. It is important that you refer to that section for further details.

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[REDACTED]

[**REDACTED**]

EXPECTED TIMETABLE[1]

[**REDACTED**]

EXPECTED TIMETABLE[1]

[**REDACTED**]

EXPECTED TIMETABLE[1]

[**REDACTED**]

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This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read this document in its entirety before you decide whether 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 whether to* [**REDACTED**] *in the* [**REDACTED**].

OVERVIEW

We were one of the top three offline-driven non-grocery retailers for lifestyle products in China by GMV in 2022, according to the Frost & Sullivan Report. We had a market share of 1.6% by GMV in the offline-driven non-grocery retail market in China in 2022. The market size of the offline-driven non-grocery retail market in China reached RMB268.5 billion by GMV in 2022, accounting for 6.6% of the overall market size of the lifestyle product retail market in China by GMV in the same year, according to the Frost & Sullivan Report.

We recorded loss from operations from 2020 to 2022. Our profitability improved as we recorded profit from operations of RMB376.3 million in the ten months ended October 31, 2023 compared to loss from operations of RMB159.6 million in the ten months ended October 31, 2022.

As of the Latest Practicable Date, there were 800 stores in our retail store network, including 680 self-owned stores and 120 franchise stores. Our retail store network covers 31 provinces in China and 34 cities in Indonesia.

We are dedicated to providing satisfying shopping experiences to our customers. We have built a large consumer base, through which we continue to enhance our brand image. Our success in the ever-changing, highly competitive and fragmented offline-driven non-grocery retail market is attributable to several factors, including the brand synergies, store site and merchandise selection, interior decoration and layout, as well as supplier portfolio.

OUR RETAIL BRANDS

We have four self-incubated retail brands, namely (i) KKV, (ii) THE COLORIST, (iii) X11 and (iv) KK Guan. Each retail brand is designed to serve the market needs of different consumer demographics. By offering our customers satisfying shopping experiences, we have been reinforcing our brand awareness.

The following table provides a glimpse of the market positioning of our retail brands:

Retail Brand	Launch Year	Market Positioning	Number of Stores as of the Latest Practicable Date
KKV	2019	Integrated lifestyle retail stores with a wide range of carefully selected merchandise targeting teenagers and young adults	458
THE COLORIST	2019	Beauty retail stores offering a wide range of domestic and imported masstige and entry-level luxury cosmetics brands	243
X11	2020	Pop culture retail stores where fans shop for pop toys and pop art products of the characters they adore	64
KK	2015	Lifestyle mini marts with an assortment of domestic and imported products in diversified product categories	35

The following table sets forth a breakdown of our revenue, gross profit and gross profit margin by retail brand for the years and the periods indicated:

	Year Ended December 31,															Ten Months Ended October 31,										
	2020					2021					2022					2022					2023					
	Revenue		Gross profit		Gross profit margin	Revenue		Gross profit		Gross profit margin	Revenue		Gross profit		Gross profit margin	Revenue		Gross profit		Gross profit margin	Revenue		Gross profit		Gross profit margin
	RMB'000	%	RMB'000	%	%	RMB'000	%	RMB'000	%	%	RMB'000	%	RMB'000	%	%	RMB'000	%	RMB'000	%	%	RMB'000	%	RMB'000	%	%
																	(Unaudited)								
KKV	834,734	50.7%	252,205	50.5%	30.2%	2,235,379	63.4%	871,433	65.8%	39.0%	2,362,134	66.5%	994,336	69.7%	42.1%	2,034,247	66.3%	831,726	68.2%	40.9%	3,270,393	68.6%	1,547,722	68.8%	47.3%
THE COLORIST	439,729	26.7%	149,754	30.0%	34.1%	853,102	24.2%	334,259	25.3%	39.2%	598,402	16.9%	246,023	17.3%	41.1%	530,529	17.3%	215,142	17.7%	40.6%	756,307	15.9%	393,107	17.5%	52.0%
KK Guan	320,885	19.5%	81,772	16.4%	25.5%	225,775	6.4%	43,698	3.3%	19.4%	139,054	3.9%	24,343	1.7%	17.5%	126,194	4.1%	22,146	1.8%	17.5%	101,464	2.1%	33,940	1.5%	33.5%
X11	12,840	0.8%	5,186	1.0%	40.4%	159,389	4.5%	69,222	5.2%	43.4%	239,634	6.7%	100,631	7.1%	42.0%	214,395	7.0%	94,938	7.8%	44.3%	304,828	6.4%	137,601	6.1%	45.1%
Others[(1)]	37,716	2.3%	10,796	2.1%	28.6%	50,209	1.5%	4,910	0.4%	9.8%	211,727	6.0%	60,196	4.2%	28.4%	161,161	5.3%	54,618	4.5%	33.9%	336,285	7.0%	136,680	6.1%	40.6%
Total	**1,645,904**	**100.0%**	**499,713**	**100.0%**	**30.4%**	**3,523,854**	**100.0%**	**1,323,522**	**100.0%**	**37.6%**	**3,550,951**	**100.0%**	**1,425,529**	**100.0%**	**40.1%**	**3,066,526**	**100.0%**	**1,218,570**	**100.0%**	**39.7%**	**4,769,277**	**100.0%**	**2,249,050**	**100.0%**	**47.2%**

Note:

(1) Primarily including revenue generated from online sales and bulk purchasing business with corporate customers. See "Business — Online Sales" for details about our online sales.

OUR RETAIL BUSINESS MODEL

We serve customers through our self-owned stores and franchise stores. See "Business — Self-owned Stores and Franchise Stores."

During the Track Record Period, we generated revenue primarily from (i) sale of goods, primarily including retail sales in our self-owned stores and sales to the franchise stores, and (ii) the sales-based management and consultation service income.

The following table sets forth a breakdown of our revenue, gross profit and gross profit margin by source for the years and the periods indicated:

	Year Ended December 31,														
	2020					2021					2022				
	Revenue		Gross Profit		Gross Profit Margin	Revenue		Gross Profit		Gross Profit Margin	Revenue		Gross Profit		Gross Profit Margin
	RMB'000	%	RMB'000	%	%	RMB'000	%	RMB'000	%	%	RMB'000	%	RMB'000	%	%
Sale of goods															
Self-owned stores	581,845	35.5%	280,797	56.2%	48.3%	2,001,345	56.8%	974,097	73.6%	48.7%	2,270,520	64.0%	1,139,314	79.9%	50.2%
Franchise stores	946,548	57.5%	128,325	25.7%	13.6%	1,338,195	38.0%	210,410	15.9%	15.7%	970,817	27.3%	128,132	9.0%	13.2%
Online sales	25,443	1.5%	8,704	1.7%	34.2%	18,243	0.5%	6,446	0.5%	35.3%	149,766	4.2%	51,587	3.6%	34.4%
Other sales[(1)]	12,273	0.7%	2,092	0.4%	17.0%	31,966	0.9%	(1,536)	(0.1%)	(4.8%)	61,961	1.7%	8,609	0.6%	13.9%
Subtotal	**1,566,109**	**95.2%**	**419,918**	**84.0%**	**26.8%**	**3,389,749**	**96.2%**	**1,189,417**	**89.9%**	**35.1%**	**3,453,064**	**97.2%**	**1,327,642**	**93.1%**	**38.4%**
Sales-based management and consultation service income[(2)]	**79,795**	**4.8%**	**79,795**	**16.0%**	**100.0%**	**134,105**	**3.8%**	**134,105**	**10.1%**	**100.0%**	**97,887**	**2.8%**	**97,887**	**6.9%**	**100.0%**
Total	**1,645,904**	**100.0%**	**499,713**	**100.0%**	**30.4%**	**3,523,854**	**100.0%**	**1,323,522**	**100.0%**	**37.6%**	**3,550,951**	**100.0%**	**1,425,529**	**100.0%**	**40.1%**

	Ten Months Ended October 31,									
	2022					2023				
	Revenue		Gross profit		Gross profit margin	Revenue		Gross profit		Gross profit margin
	RMB'000	%	RMB'000	%	%	RMB'000	%	RMB'000	%	%
	(Unaudited)									
Sale of goods										
Self-owned stores	1,957,630	63.8%	962,625	79.0%	49.2%	3,726,036	78.1%	1,941,500	86.3%	52.1%
Franchise stores	868,079	28.3%	121,671	10.0%	14.0%	636,694	13.4%	100,608	4.5%	15.8%
Online sales	106,652	3.5%	40,109	3.3%	37.6%	273,991	5.7%	102,565	4.6%	37.4%
Other sales[(1)]	54,509	1.8%	14,509	1.2%	26.6%	62,294	1.3%	34,115	1.5%	54.8%
Subtotal	**2,986,870**	**97.4%**	**1,138,914**	**93.5%**	**38.1%**	**4,699,015**	**98.5%**	**2,178,788**	**96.9%**	**46.4%**
Sales-based management and consultation service income[(2)]	**79,656**	**2.6%**	**79,656**	**6.5%**	**100.0%**	**70,262**	**1.5%**	**70,262**	**3.1%**	**100.0%**
Total	**3,066,526**	**100.0%**	**1,218,570**	**100.0%**	**39.7%**	**4,769,277**	**100.0%**	**2,249,050**	**100.0%**	**47.2%**

Notes:

(1) Primarily including revenue generated from bulk purchasing business with corporate customers. In terms of other sales, we had negative gross profit and gross profit margin in 2021, mainly because we held clearance sales where goods were sold lower than costs.

(2) Primarily including fees we charged franchisees according to store management agreements for management and consultation services, such as store management fees, logistics charges and POS charges to our franchisees.

The following table sets forth a breakdown of our revenue, gross profit and gross profit margin generated from sale of goods, by source of merchandise, for the years and the periods indicated:

	Year Ended December 31,														
	2020					2021					2022				
	Revenue		Gross Profit		Gross Profit Margin	Revenue		Gross Profit		Gross Profit Margin	Revenue		Gross Profit		Gross Profit Margin
	RMB'000	%	RMB'000	%	%	RMB'000	%	RMB'000	%	%	RMB'000	%	RMB'000	%	%
Self-owned brand merchandise(1)	202,916	13.0%	94,960	22.6%	46.8%	439,413	13.0%	221,810	18.6%	50.5%	363,231	10.5%	190,135	14.3%	52.3%
Third party brand merchandise(2)	1,363,193	87.0%	324,958	77.4%	23.8%	2,950,336	87.0%	967,607	81.4%	32.8%	3,089,833	89.5%	1,137,507	85.7%	36.8%
Total	**1,566,109**	**100.0%**	**419,918**	**100.0%**	**26.8%**	**3,389,749**	**100.0%**	**1,189,417**	**100.0%**	**35.1%**	**3,453,064**	**100.0%**	**1,327,642**	**100.0%**	**38.4%**

	Ten Months Ended October 31,									
	2022					2023				
	Revenue		Gross profit		Gross profit margin	Revenue		Gross profit		Gross profit margin
	RMB'000	%	RMB'000	%	%	RMB'000	%	RMB'000	%	%
	(Unaudited)									
Self-owned brand merchandise(1)	316,807	10.6%	164,966	14.8%	52.1%	650,091	13.8%	385,167	17.7%	59.2%
Third party brand merchandise(2)	2,670,063	89.4%	973,948	85.5%	36.5%	4,048,924	86.2%	1,793,621	82.3%	44.3%
Total	**2,986,870**	**100.0%**	**1,138,914**	**100.0%**	**38.1%**	**4,699,015**	**100.0%**	**2,178,788**	**100%**	**46.4%**

Notes:

(1) Self-owned brand merchandise refers to merchandise we procure from OEM and ODM contractors.

(2) Third party brand merchandise refers to merchandise we procure from Third Party Brand Suppliers.

OUR RETAIL STORE NETWORK

We have established an extensive nationwide retail store network. As of the Latest Practicable Date, there were 800 stores in our retail store network, covering 31 provinces in China and 34 cities in Indonesia. The table below sets out the number of retail stores by store type as of dates indicated:

	As of December 31,						As of October 31, 2023	
	2020		2021		2022			
	Number of stores	%	Number of stores	%	Number of stores	%	Number of stores	%
KKV								
Self-owned stores	54	9.7%	185	25.7%	329	46.5%	348	48.1%
Franchise stores	148	26.6%	152	21.1%	54	7.6%	73	10.1%
THE COLORIST								
Self-owned stores	59	10.6%	135	18.7%	188	26.6%	206	28.5%
Franchise stores	170	30.6%	113	15.7%	19	2.7%	10	1.4%
X11								
Self-owned stores	3	0.5%	35	4.9%	50	7.1%	48	6.6%
Franchise stores	1	0.2%	–	–	–	–	–	–
KK Guan								
Self-owned stores	16	2.9%	9	1.2%	26	3.7%	13	1.8%
Franchise stores	105	18.9%	92	12.8%	41	5.8%	26	3.6%
Total	**556**	**100.0%**	**721**	**100.0%**	**707**	**100.0%**	**724**	**100.0%**
Self-owned stores	132	23.7%	364	50.5%	593	83.9%	615	84.9%
Franchise stores	424	76.3%	357	49.5%	114	16.1%	109	15.1%

See "Business — Self-owned Stores and Franchise Stores."

OUR COMPETITIVE STRENGTHS

We have the following competitive strengths:

- A leading offline-driven non-grocery retailer for lifestyle products with multiple retail brands;
- A consumer-centric offline-driven non-grocery retailer for lifestyle products with deep consumer insights;
- Proven ability to incubate and scale new retail brands;
- Effective and comprehensive information technologies to achieve operational efficiency;
- Our capabilities in maintaining a stable, collaborative and large supplier network; and
- An experienced management team.

OUR DEVELOPMENT STRATEGIES

In order to further solidify our competitive strengths and achieve future growth, we plan to pursue the following development strategies:

- Expand our nationwide retail network;
- Continue to develop global product sourcing capability and bring our customer the latest product portfolio;
- Further optimize our operational efficiency through effective information technology;
- Enhance our existing brand portfolio and launch new retail brands; and
- Promote online sales.

OUR SUPPLIERS AND CUSTOMERS

Our suppliers include Third Party Brand Suppliers and OEM and ODM contractors. As of October 31, 2023, we sourced merchandise locally and globally from 1,179 Third Party Brand Suppliers, and engaged 157 OEM and ODM contractors. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, the total amount of purchases from our five largest suppliers in each year or period during the Track Record Period was RMB330.7 million, RMB220.6 million, RMB146.8 million and RMB170.6 million, which accounted for approximately 18.1%, 7.2%, 6.6% and 6.5% of our total purchases, respectively. See "Business — Our Suppliers and Raw Materials."

Our customers mainly include (i) our franchisees who operate the franchise stores and (ii) retail customers in our self-owned stores. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, revenue generated from our five largest customers in each year or period during the Track Record Period was RMB367.4 million, RMB723.9 million, RMB624.3 million and RMB560.6 million, accounting for approximately 22.3%, 20.5%, 17.6% and 11.8% of our total revenue, respectively.

SUMMARY OF STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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 Accountants' Report set out in Appendix I to this document, together with the respective accompanying notes.

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 (*Unaudited*)	RMB'000
Revenue	**1,645,904**	**3,523,854**	**3,550,951**	**3,066,526**	**4,769,277**
Cost of sales	(1,146,191)	(2,200,332)	(2,125,422)	(1,847,956)	(2,520,227)
Gross profit	**499,713**	**1,323,522**	**1,425,529**	**1,218,570**	**2,249,050**
Other income	34,888	61,194	62,260	57,769	37,393
Selling and distribution expenses	(395,250)	(1,097,483)	(1,313,170)	(1,049,259)	(1,437,984)
Administrative and other operating expenses	(281,894)	(524,739)	(497,454)	(386,705)	(472,138)
(Loss)/profit from operations	**(142,543)**	**(237,506)**	**(322,835)**	**(159,625)**	**376,321**
Finance costs	(49,152)	(91,511)	(103,474)	(84,009)	(80,923)
Share of (losses)/profits from joint ventures	(16,170)	(32,304)	(81,689)	(71,793)	11,085
Fair value changes of financial liabilities measured at fair value through profit or loss ("**FVTPL**")	(1,842,514)	(5,356,803)	489,247	456,043	(10,013)
(Loss)/profit before taxation	**(2,050,379)**	**(5,718,124)**	**(18,751)**	**140,616**	**296,470**
Income tax	33,172	36,773	80,615	48,022	(87,044)
(Loss)/profit for the year/period	**(2,017,207)**	**(5,681,351)**	**61,864**	**188,638**	**209,426**
Attributable to:					
Equity shareholders of our Company	(2,016,324)	(5,625,587)	90,595	244,944	201,096
Non-controlling interests	(883)	(55,764)	(28,731)	(56,306)	8,330

Our revenue was RMB1,645.9 million, RMB3,523.9 million, RMB3,551.0 million, RMB3,066.5 million and RMB4,769.3 million in 2020, 2021 and 2022 and for the ten months ended October 31, 2022 and 2023, respectively. The increase in our revenue was mainly the result of the overall increase in the number of our retail stores, which grew from 556 as of December 31, 2020 to 724 as of October 31, 2023.

Our gross profit was RMB499.7 million, RMB1,323.5 million, RMB1,425.5 million, RMB1,218.6 million and RMB2,249.1 million in 2020, 2021 and 2022 and for the ten months ended October 31, 2022 and 2023, respectively, whilst our gross profit margin was 30.4%, 37.6%, 40.1%, 39.7% and 47.2% in the same years and periods, respectively. The increase in our gross profit was generally in line with our revenue growth, whilst the increase in our gross profit margin was the result of the increasing revenue portion contributed by KKV and THE COLORIST stores, both of which generally had higher gross profit margin than our average gross profit margin during the Track Record Period.

We had loss from operations of RMB142.5 million, RMB237.5 million, RMB322.8 million and RMB159.6 million in 2020, 2021 and 2022 and the ten months ended October 31, 2022, respectively. Such loss from operations was primarily the result of (i) the COVID-19 pandemic and (ii) our store- and headquarters-level investments to expand our store network nationwide. We had profit from operations of RMB376.3 million for the ten months ended October 31, 2023, mainly because of the favorable impacts on our business operations after the COVID-19 pandemic control measures were gradually lifted in China since late 2022.

We had net loss of RMB2,017.2 million and RMB5,681.4 million in 2020 and 2021, respectively, mainly because of (i) the increase in loss from operations and (ii) the fair value loss of financial liabilities measured at FVTPL of RMB1,842.5 million and RMB5,356.8 million in 2020 and 2021, respectively. The increase in the fair value loss primarily reflected an increase in our valuation. Our net profit of RMB61.9 million and RMB188.6 million in 2022 and ten months ended October 31, 2022 was mainly because we had fair value gain of RMB489.2 million and RMB456.0 million in the respective year and period. Such gain reflected a decrease in our valuation. Our net profit of RMB209.4 million in the ten months ended October 31, 2023 was mainly the result of our profit from operations of RMB376.3 million, partially offset by finance costs of RMB80.9 million.

See "Financial Information — Description of Select Combined Statements of Comprehensive Income Line Items — Management's Discussion and Analysis of Results of Operations."

Non-HKFRS Measures

We believe that the presentation of non-HKFRS measures facilitates comparisons of operating performance. The use of these non-HKFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, as a substitute for, analysis of, or superior to, our results of operations or financial condition as reported under HKFRS.

We define "adjusted net loss/profit (a non-HKFRS measure)" as loss/profit for the year/period adjusted for (i) fair value changes of financial liabilities measured at FVTPL; and (ii) [**REDACTED**]. Financial liabilities measured at FVTPL consist of redemption liabilities of ordinary shares and convertible redeemable preferred shares, which will automatically convert into ordinary shares upon the [**REDACTED**]. Therefore, we do not expect to recognize any further fair value changes of financial liabilities measured at FVTPL subsequent to the [**REDACTED**]. See note 26 to the Accountants' Report in Appendix I to this document. The [**REDACTED**] were incurred related to the [**REDACTED**]. We define "adjusted EBITDA (a non-HKFRS measure)" as adjusted net loss or profit for the year/period (a non-HKFRS measure) adjusted for (i) income tax; (ii) depreciation and amortization; (iii) finance costs; and (iv) interest income. The adjustments have been consistently made during the Track Record Period.

The following table reconciles our adjusted net loss/profit for the year/period (a non-HKFRS measure) and adjusted EBITDA for the year/period (a non-HKFRS measure) to net loss/profit.

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** *(Unaudited)*	**RMB'000**
(Loss)/profit for the year/period	**(2,017,207)**	**(5,681,351)**	**61,864**	**188,638**	**209,426**
Adjusted for:					
Fair value changes of financial liabilities measured at FVTPL	1,842,514	5,356,803	(489,247)	(456,043)	10,013
[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Adjusted net (loss)/profit for the year/period (a non-HKFRS measure)	**(171,380)**	**(303,887)**	**(412,276)**	**(253,712)**	**229,823**

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 *(Unaudited)*	RMB'000
Adjusted net (loss)/profit for the year/period (a non-HKFRS measure)	**(171,380)**	**(303,887)**	**(412,276)**	**(253,712)**	**229,823**
Adjusted for:					
Income tax	(33,172)	(36,773)	(80,615)	(48,022)	87,044
Depreciation and amortization	222,940	472,654	655,068	512,977	588,426
Finance costs	49,152	91,511	103,474	84,009	80,923
Interest income	(30,435)	(45,064)	(18,273)	(16,345)	(11,049)
Adjusted EBITDA for the year/period (a non-HKFRS measure)	**37,105**	**178,441**	**247,378**	**278,907**	**975,167**

Our adjusted net loss (a non-HKFRS measure) increased from RMB171.4 million in 2020 to RMB412.3 million in 2022, primarily because our loss from operation increased from RMB142.5 million in 2020 to RMB322.8 million in 2022. See "Financial Information — Description of Select Consolidated Statements of Comprehensive Income Line Items — (Loss)/Profit from Operations."

We recorded adjusted net loss (a non-HKFRS measure) of RMB253.7 million in the ten months ended October 31, 2022 while we recorded adjusted net profit (a non-HKFRS measure) of RMB229.8 million in the ten months ended October 31, 2023, primarily because we recorded profit from operations of RMB376.3 million in the ten months ended October 31, 2023, compared to loss from operations of RMB159.6 million in the ten months ended October 31, 2022.

PATH TO PROFITABILITY

We believe the offline-driven non-grocery retail market in China has significant growth potential, primarily driven by consumer pursuit of personalized lifestyle, product diversification, and the demand for a surprise-filled and satisfying shopping experiences. According to the Frost & Sullivan Report, the market size of offline-driven non-grocery retail market by GMV has experienced a fast expansion in recent years, and is expected to grow to RMB655.5 billion in 2027 from RMB268.5 billion in 2022, representing an estimated CAGR of 19.5%. As one of the top three offline-driven non-grocery retailers for lifestyle products in China by GMV in 2022, we have the opportunity to address customer needs and to capture market opportunities.

Considering the offline operations and retail nature of our business, the COVID-19 pandemic had adversely impacted our operations during the Track Record Period. See "Financial Information — Description of Select Consolidated Statements of Comprehensive Income Line Items — (Loss)/Profit from Operations." However, we strongly believe that our brand image, merchandise portfolio, and shopping environment still have and will continue to attract customers and cater for the strong demand from the market.

As the adverse effects of the COVID-19 pandemic have subsided since January 2023 and as we continue to implement measures to improve store operations and optimize our store network, we have witnessed a strong growth of 43.4% in average monthly GMV per store from RMB539.4 thousand in the ten months ended October 31, 2022 to RMB773.7 thousand in the ten months ended October 31, 2023. Our profitability improved as we recorded profit from operations of RMB376.3 million in the ten months ended October 31, 2023, compared to loss from operations of RMB159.6 million in the ten months ended October 31, 2022.

Going forward, we expect to continue to improve our financial performance and continue to achieve profitability, primarily by (i) improving performance of existing stores, (ii) expanding and optimizing store network, and (iii) reducing costs and expenses as a percentage of revenue.

See "Financial Information — Path to Profitability."

SUMMARY OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONS

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated.

	As of December 31,			As of October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	1,901,291	2,894,250	3,497,308	2,797,057
Total current assets	1,213,077	2,764,240	1,901,786	2,294,667
Total assets	**3,114,368**	**5,658,490**	**5,399,094**	**5,091,724**
Total non-current liabilities	(4,865,698)	(12,516,953)	(12,349,843)	(11,905,251)
Total current liabilities	(958,479)	(1,313,682)	(1,412,037)	(1,404,002)
Total liabilities	**(5,824,177)**	**(13,830,635)**	**(13,761,880)**	**(13,309,253)**
Net current assets	**254,598**	**1,450,558**	**489,749**	**890,665**
Total deficit attributable to equity shareholders	(2,747,495)	(8,350,967)	(8,394,716)	(8,222,001)
Non-controlling interests	37,686	178,822	31,930	4,472
Net liabilities	**(2,709,809)**	**(8,172,145)**	**(8,362,786)**	**(8,217,529)**

During the Track Record Period, our non-current liabilities primarily comprised financial liabilities measured at FVTPL related to [**REDACTED**] Investments, including redemption liabilities and convertible redeemable preferred shares. As of December 31, 2020, 2021 and 2022 and October 31, 2023, our financial liabilities measured at FVTPL represented 68.2%, 80.4%, 77.2% and 79.9% of our total liabilities, respectively. Our financial liabilities measured at FVTPL will be re-designated from liabilities to equity upon the [**REDACTED**]. We expect to have a net asset position upon the [**REDACTED**].

In addition, our financial liabilities measured at FVTPL had changing fair value during the Track Record Period, in line with the changes in our valuation. The non-cash fair value loss of financial liabilities measured at FVTPL in 2020 and 2021, as well as our loss from operations, had an adverse impact on our consolidated statements of profit or loss and other comprehensive income. Our net loss of RMB2,017.2 million and RMB5,681.4 million in 2020 and 2021 further affected our consolidated statements of changes in equity. Together with the impact of (i) our acquisition of non-controlling interests of certain non-wholly owned subsidiaries of RMB287.8 million and RMB69.1 million in 2022 and early 2023; and (ii) our total deficit as of January 1, 2020, we had net liabilities during the Track Record Period. Our net liabilities increased significantly from RMB2.7 billion as of December 31, 2020 to RMB8.2 billion as of December 31, 2021, mainly because the increase in our valuation resulted in the significant fair value loss of redemption liabilities and convertible redeemable preferred shares related to [**REDACTED**] Investments. Such increase was partially offset by the capital contribution from non-controlling interests of RMB196.9 million in 2021. Our net liabilities increased from RMB8.2 billion as of December 31, 2021 to RMB8.4 billion as of December 31, 2022, mainly because we acquired the non-controlling interests of certain non-wholly owned subsidiaries. Such increase was partially offset by the capital contribution from non-controlling interests of RMB40.1 million in 2022. See "Business — Store Network Optimization Initiatives" for more information about our acquisition of non-controlling interests. The increase in our net liabilities from 2020 to 2022 was also attributable to our increased loss from operations during this time. We had loss from operations of RMB142.5 million, RMB237.5 million and RMB322.8 million in 2020, 2021 and 2022, respectively. Our net liabilities decreased from RMB8.4 billion as of December 31, 2022 to RMB8.2 billion as of October 31, 2023, mainly because we had net profit of RMB209.4 million for the ten months ended October 31, 2023.

Our net current assets increased from RMB254.6 million as of December 31, 2020 to RMB1.5 billion as of December 31, 2021, primarily due to the increases in trade and other receivables, inventories, and cash and cash equivalents. Our net current assets dropped to RMB489.7 million as of December 31, 2022 mainly due to the decreases in our inventories and other investments. Our net current assets increased from RMB489.7 million as of December 31, 2022 to RMB890.7 million as of October 31, 2023, primarily due to the increase in cash and cash equivalents.

Our non-current assets increased from RMB1.9 billion as of December 31, 2020 to RMB3.5 billion as of December 31, 2022, primarily attributable to the increases in right-of-use assets such as leases and property, plant and equipment during the respective periods. Our non-current assets decreased from RMB3.5 billion as of December 31, 2022 to RMB2.8 billion as of October 31, 2023, primarily due to the decrease in right-of-use assets.

Our non-current liabilities increased from RMB4.9 billion as of December 31, 2020 to RMB12.5 billion as of December 31, 2021, primarily attributable to the increase in our financial liabilities measured at FVTPL. Our non-current liabilities decreased to RMB12.3 billion as of December 31, 2022, and RMB11.9 billion as of October 31, 2023.

See "Financial Information — Discussion of Certain Statements of Financial Position Items — Non-current Assets and Non-Current Liabilities — Financial Liabilities measured at FVTPL."

SUMMARY OF CONSOLIDATED STATEMENTS OF CASH FLOWS

The following table sets forth a summary of our cash flows for the years and the periods indicated:

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Operating cash flows before changes in working capital	43,875	237,424	301,402	307,257	905,859
Changes in working capital	(357,821)	(824,811)	(2,227)	(83,369)	302,271
Cash (used in)/generated from operations	(313,946)	(587,387)	299,175	223,888	1,208,130
Income tax paid	(124)	(2,314)	(3,901)	(3,901)	(6,391)
Net cash (used in)/generated from operating activities	(314,070)	(589,701)	295,274	219,987	1,201,739
Net cash (used in)/generated from investing activities	(525,590)	(399,236)	(46,720)	52,843	(236,891)
Net cash (used in)/generated from financing activities	778,202	1,289,542	(480,038)	(296,662)	(410,611)
Net increase/(decrease) in cash and cash equivalents	**(61,458)**	**300,605**	**(231,484)**	**(23,832)**	**554,237**
Cash and cash equivalents at the beginning of the year/period	233,291	168,294	465,707	465,707	248,073
Effect of foreign exchange rate change	(3,539)	(3,192)	13,850	21,492	4,015
Cash and cash equivalents at the end of the year/period	**168,294**	**465,707**	**248,073**	**463,367**	**806,325**

We recorded net cash generated from operating activities in the ten months ended October 31, 2023, primarily attributable to our net profit before taxation of RMB296.4 million, as adjusted by certain non-cash and non-operating items, mainly consisting of (i) depreciation of right-of-use assets of RMB407.0 million, and depreciation of property, plant and equipment of RMB163.6 million, and (ii) changes in working capital, mainly driven by increase in trade and other payables and increase in trade and other receivables.

We recorded net cash generated from operating activities in 2022, which was primarily the result of operating cash flows before changes in working capital of RMB301.4 million, income tax paid of RMB3.9 million, and the negative changes in working capital of RMB2.2 million.

We recorded net cash used in operating activities in 2021, primarily attributable to our net loss before taxation of RMB5.7 billion, as adjusted by certain non-cash and non-operating items, mainly consisting of (i) the changes in fair value on financial liabilities measured at FVTPL of a loss of RMB5.4 billion and depreciation of right-of-use assets of RMB336.3 million; and (ii) changes in working capital, mainly driven by the increase in trade and other receivables and increase in inventories.

We recorded net cash used in operating activities in 2020, primarily attributable to our net loss before taxation of RMB2.1 billion, which was further adjusted by (i) add-back of fair value change of financial liabilities measured at FVTPL and depreciation of right-of-use assets, and (ii) changes in working capital, mainly driven by increase in inventories and increase in trade and other receivables.

See "Financial Information — Liquidity and Capital Resources — Cash Flow — Operating Activities."

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as of the dates or for the years and the period indicated:

	Year Ended/As of December 31,			Ten Months Ended/As of October 31,
	2020	2021	2022	2023
Current ratio(1)	1.27	2.10	1.35	1.63
Revenue growth	254.9%	114.1%	0.8%	55.5%
Gross profit margin	30.4%	37.6%	40.1%	47.2%
Operating (loss)/profit margin(2)	(8.7%)	(6.7%)	(9.1%)	7.9%
Adjusted EBITDA margin (a non-HKFRS measure)(3)	2.3%	5.1%	7.0%	20.4%

Notes:

(1) Current ratio is calculated by dividing total current assets by total current liabilities at the end of the period.

(2) Operating loss/profit margin is calculated by dividing loss/profit from operations by revenue, and multiplied by 100.0%.

(3) Adjusted EBITDA margin (a non-HKFRS measure) is calculated by dividing adjusted EBITDA for the year/period (a non-HKFRS measure) by revenue, and multiplied by 100.0%. For reconciliation of adjusted EBITDA (a non-HKFRS measure) from loss/profit for the year/period, see "Financial Information — Non-HKFRS Measures."

SUMMARY OF KEY RISK FACTORS

There are certain risks involved in our operations and in connection with the [**REDACTED**], many of which are beyond our control. These risks can be categorized into (i) risks relating to our business and industry, (ii) risks relating to doing business in China, and (iii) risks relating to the [**REDACTED**]. Such risks primarily include:

- Our sales depend on the popularity of the brands and merchandise we offer, as well as customer preferences and spending patterns. We may not be able to identify changing consumer preferences towards the merchandise we offer in our sales channels in a timely manner.

- We may lose our distribution rights to sell certain brand merchandise in our distribution channels and/or fail to renew these distribution agreements which could have an adverse effect on our business.

- We rely on third-party OEM and ODM contractors for the manufacturing of our self-owned brand merchandise. Our brand image and business may be negatively affected by a disruption in the supply of our OEM and ODM contractors.

- If we are unable to provide satisfying customer experiences, our business and reputation may be materially and adversely affected.

- We may not be able to continue to successfully expand our merchandise offerings and brand portfolio.

- We may not be able to successfully expand our offline sales network by increasing the number of self-owned stores and franchise stores.

OUR SINGLE LARGEST SHAREHOLDERS GROUP AND SHAREHOLDERS INFORMATION

The Single Largest Shareholders Group, Mr. Wu, Mr. Guo and their respective wholly-owned investment holding companies (namely, MOGR and Starlight), is a group of persons acting in concert with each other. See "Relationship with the Single Largest Shareholders Group" for further details.

As of the Latest Practicable Date, the Single Largest Shareholders Group was interested in approximately 28.3865% of the total issued share capital of our Company. Immediately upon completion of the Share Subdivision and the [**REDACTED**] (assuming the [**REDACTED**] is not exercised), the Single Largest Shareholders Group will be interested in approximately [**REDACTED**]% of the total issued share capital of our Company, comprising (i) Shares representing approximately [**REDACTED**]% of the share capital of our Company held by MOGR (a wholly-owned investment holding company of Mr. Wu), and (ii) Shares representing approximately [**REDACTED**]% of the share capital of our Company held by Starlight (a wholly-owned investment holding company of Mr. Guo). See "Relationship with the Single Largest Shareholders Group" and "Substantial Shareholders" for further details.

OUR [REDACTED] INVESTORS

We underwent 13 rounds of [**REDACTED**] Investments from our [**REDACTED**] Investors comprising institutional investors including, among others, KK Brothers, eWTP, CMC Krypton and Matrix since our establishment. For further details of the identity and background of the [**REDACTED**] Investors, see the section headed "History, Reorganization and Corporate Structure — [**REDACTED**] Investments — 5. Information of our Shareholders and [**REDACTED**] Investors" in this document.

[**REDACTED**]

[**REDACTED**]

USE OF [REDACTED]

We estimate that the [**REDACTED**] from the [**REDACTED**] which we will receive, if the [**REDACTED**] is not exercised, assuming an [**REDACTED**] of HK$[**REDACTED**] per Share (being the mid-point of the indicative [**REDACTED**] range), will be approximately HK$[**REDACTED**], after deducting [**REDACTED**], fees and estimated expenses payable by us in connection with the [**REDACTED**]. We intend to apply the [**REDACTED**] from the [**REDACTED**] for the purposes and in the amounts set out below:

- approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used over the next two years to continue developing our store network and further deepening our market penetration;

- approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used in the next two years to further invest in technology initiatives to enhance the digitalization of our business;

- approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used in the next two years for expansion and optimization of our logistics and supply chains, with a goal to sustain our business growth; and

- the remaining approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used for working capital and general corporate purposes.

DIVIDEND

As we are a holding company incorporated under the laws of the Cayman Islands, the payment and amount of any future dividends will depend on the availability of dividends received from our subsidiaries. During the Track Record Period, we did not declare or distribute any dividend to our shareholders. We do not have any dividend policy at present and have no present plan to pay any dividends to our Shareholders in the foreseeable future. However, we may distribute dividends in the future by way of cash or by other means that we consider appropriate. Any dividends we pay will be determined at the absolute discretion of our Board, taking into account factors including our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that our Board deems to be appropriate. Our Shareholders may approve, in a general meeting, any declaration of dividends, which must not exceed the amount recommended by our Board.

As advised by our Cayman Islands legal advisor, under Cayman Islands law, a position of accumulated losses does not necessarily restrict us from declaring and paying dividends to our Shareholders out of profits and reserves of our Company lawfully available for distribution, including share premium, provided this would not result in our Company being unable to pay its debts as they fall due in the ordinary course of business.

PROFIT ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2023

We have prepared the following profit estimate for the year ended December 31, 2023:

Estimated consolidated profit attributable to equity shareholders of the Company for the year ended December 31, 2023[(1)]	No less than RMB[**REDACTED**]

(1) The basis on which the above estimate has been prepared is set out in Appendix IA to this document. Our Directors have prepared the estimated consolidated profit attributable to equity shareholders of the Company for the year ended December 31, 2023 based on (i) the audited consolidated results of our Group for the ten months ended October 30, 2023 and (ii) the unaudited consolidated results based on the management accounts of our Group for the remaining two months ended December 31, 2023. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by our Group as set out in Note 2 to the Accountant's Report in Appendix I to this document.

[REDACTED]

Our [**REDACTED**] mainly include [**REDACTED**] and professional fees paid to legal, accounting and other advisors for their services rendered in relation to the [**REDACTED**] and the [**REDACTED**]. The estimated total [**REDACTED**] (based on the mid-point of the [**REDACTED**] range and assuming that the [**REDACTED**] is not exercised) for the [**REDACTED**] are approximately RMB[**REDACTED**] (including (i) [**REDACTED**] expenses (including but not limited to [**REDACTED**] and fees) of approximately HK$[**REDACTED**], and (ii) [**REDACTED**] related expenses of approximately HK$[**REDACTED**], which consist of fees and expenses of legal advisors and the Reporting Accountants of approximately HK$[**REDACTED**], and other fees and expenses of approximately HK$[**REDACTED**]), accounting for approximately [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**] (based on the mid-point of the [**REDACTED**] range and assuming that the [**REDACTED**] is not exercised), of which (i) approximately RMB[**REDACTED**] has been charged to our consolidated statements of profit or loss and other comprehensive income during the Track Record Period, and (ii) approximately RMB[**REDACTED**] is expected to be charged to our consolidated statements of profit or loss and other comprehensive income subsequent to the Track Record Period and the remaining amount of RMB[**REDACTED**] is expected to be recognized directly as a deduction from equity upon the [**REDACTED**].

RECENT DEVELOPMENTS

From October 31, 2023 to the Latest Practicable Date, there were 87 newly opened stores. In terms of retail brands, the above 87 newly opened stores comprise 41 KKV stores, 30 THE COLORIST stores and 16 X11 stores. In terms of store type, the above 87 newly opened stores comprise 70 self-owned stores and 17 franchise stores. In terms of city tiers, four stores were located in tier-one cities, 70 stores were located in tier-two and lower tier cities in China and 13 stores were located in Indonesia. During the same period, four KKV stores, three THE COLORIST stores and four KK Guan stores in China were closed. For reasons underlying store number movement, please see "Business — Self-owned Stores and Franchise Stores — Movement in the Number of Self-owned Stores" and "Business — Self-owned Stores and Franchise Stores — Movement in the Number of Franchise Stores."

Our average monthly GMV per store increased by 43.8% from RMB510.5 thousand in 2022 to RMB734.0 thousand in 2023. Our average monthly number of transactions per store increased by 48.4% from 7,955 in 2022 to 11,803 in 2023. For reasons underlying improved performance in average store sales and transaction number, please see "Business — Our Retail Store Network — Our Retail Store Performance."

Going forward, we plan to further improve our financial performance and achieve profitability in the near future through continuous revenue growth and improved cost efficiency. See "Financial Information — Path to Profitability."

As confirmed by our Directors and our PRC Legal Advisers, we have filed the necessary documents with the CSRC within the specific time-frame required by the Oversea Listing Trial Measures. Based on the filing status table for the domestic enterprises' overseas issuance of securities and listing (境內企業境外發行證券和上市備案情況表) published by the CSRC, the CSRC received our application and the necessary documents on August 23, 2023. As of the Latest Practicable Date, we had complied with the relevant requirements of the Oversea Listing Trial Measures and we plan to continue to comply with these requirements in all respects by seeking guidance from the relevant regulators and our PRC Legal Advisers. See "Regulatory Overview — Laws and Regulations Related to Overseas Listing."

IMPACT OF COVID-19 PANDEMIC ON OUR BUSINESS

An outbreak of a novel strain of coronavirus named COVID-19 that began in the end of December 2019 materially and adversely affected the global economy. In response to the pandemic, countries and regions across the world, including China, began to impose movement restriction measures to contain the spread of the virus. Because of the adverse effects of the COVID-19 pandemic, we experienced a reduction to a certain degree in sales levels in 2020 compared to the same periods in 2019.

In 2020, approximately 28.9% of the stores under our retail brands as of December 31, 2020 in 77 cities in China had temporary store closure for 26.2 days on average. Approximately 71% of the stores under our retail brands in China were closed for seven or more days in February 2020 when the COVID-19 broke out in China. For the stores that remained open, the average monthly sales per store declined following the shortened hours of operation and reduced customer traffic.

In addition, due to waves of the COVID-19 pandemic, particularly the Delta and Omicron variants, from time to time in certain regions across China in 2021, we observed temporary drops in sales for stores in those regions, primarily as a result of pandemic control measures implemented there. In particular, approximately 12.5% of the stores under our retail brands as of December 31, 2021 in 44 cities in China experienced temporary closure for 17.6 days on average in 2021.

The pandemic situation in China in 2022 was severe due to clusters emerging in multiple regions simultaneously. The pandemic control measures in these regions temporarily and adversely impacted our operations and logistics as approximately 83.3% of the stores under our retail brands as of December 31, 2022 located in 163 different cities in China were temporarily closed for 27.7 days in 2022.

Our average monthly GMV per store at the overall group level decreased from 2021 to 2022 primarily due to decreases in the average monthly number of transactions per store from 2021 to 2022 since a larger portion of retail stores were temporarily closed for more days on average in China in 2022 compared to 2021. Due to such pandemic control measures, the logistics in many cities were adversely affected or even disrupted, which affected our procurement and delivery, and increased our associated costs.

Since December 2022, the restrictive measures were gradually eased. On January 2, 2023, all of the stores under our retail brands resumed normal operations. On January 8, 2023, the pandemic control measures were lifted. On January 10, 2023, the supply chain and logistics in relation to our business operations were back to normal.

To the best knowledge of our Directors, since October 31, 2023, and up to the Latest Practicable Date, there was no material adverse change in our operations or financial or trading position, and no event occurred that would materially and adversely affect the information presented in the consolidated financial statements of our Company.

DEFINITIONS

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

"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
"AFRC"	the Accounting and Financial Reporting Council of Hong Kong
"Articles" or "Articles of Association"	the articles of association of our Company conditionally adopted on [●] with effect from the [**REDACTED**], as amended from time to time, a summary of which is set out in Appendix III to this document
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board" or "Board of Directors"	the board of directors of our Company
"Bright Deshang"	Bright Deshang (Shenzhen) Venture Capital Center (Limited Partnership) (璀璨德商(深圳)創業投資中心(有限合夥)), a limited partnership registered in the PRC
"Bright Vision"	Bright Vision (Shenzhen) Enterprise Management Partnership (Limited Partnership) (璀璨遠見(深圳)企業管理合夥企業(有限合夥)), a limited partnership registered in the PRC
"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
"CAC"	the Cyberspace Administration of China (國家互聯網信息辦公室)

[**REDACTED**]

"Cayman Islands Companies Act" or "Companies Act"	the Companies Act (As Revised) of the Cayman Islands

DEFINITIONS

[**REDACTED**]

"CCRC"	the China Cybersecurity Review Technology and Certification Center (中國網絡安全審查技術與認證中心)
"China" or "the PRC"	the People's Republic of China, and for the purposes of this document only, except where the context requires otherwise, excluding Hong Kong, the Macao Special Administrative Regions of the People's Republic of China and Taiwan

"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"CMC II"	CMC Krypton II Holdings Limited, an exempted company with limited liability organized under the Laws of the Cayman Islands
"CMC Krypton"	CMC Krypton Holdings Limited, an exempted company with limited liability organized under the Laws of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our Company" or "the Company"	KK Group Company Holdings Limited (formerly known as "KK Technology Company Holdings Limited"), an exempted company with limited liability incorporated under the laws of the Cayman Islands on March 29, 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
"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the national securities market in China
"Director(s)"	the director(s) of our Company
"Dongguan Kuaike"	Dongguan Kuaike Partnership (Limited Partnership) (東莞快客合夥企業(有限合夥)), a limited partnership established under the laws of the PRC
"Dongguan WFOE "	Guangdong Xingke Commerce Management Co, Ltd. (廣東星客商業管理有限公司), a company established under limited liability under the laws the PRC

"EIT"	the PRC enterprise income tax
"EIT Law"	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), enacted on March 16, 2007, effective from January 1, 2008 and amended on February 24, 2017 and December 29, 2018 by the SCNPC
"eWTP"	eWTP Tech Innovation Fund LP, a limited partnership registered in the Cayman Islands
"Extreme Conditions"	the occurrence of "extreme conditions" as announced by any government authority of Hong Kong due to serious disruption of public transport services, extensive flooding, major landslides, large-scale power outage or any other adverse conditions before Typhoon Signal No. 8 or above is replaced with Typhoon Signal No. 3 or below
"Founder"	Mr. Wu
"Frost & Sullivan"	Frost & Sullivan International Limited, an independent market research expert
"Frost & Sullivan Report"	an independent market research report commissioned by us and prepared by Frost & Sullivan for the purpose of this document
"GDP"	gross domestic product

[**REDACTED**]

"Gongqingcheng"	Gongqingcheng Yueke Investment Management Partnership (Limited Partnership) (共青城悅客投資管理合夥企業(有限合夥), a limited partnership established under the laws of the PRC
"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, such subsidiaries as if they were subsidiaries of our Company at the relevant time
"Guangdong Kuaike Electronic"	Guangdong Kuaike Electronic Commerce Co., Ltd. (廣東快客電子商務有限公司), a company established under limited liability under the laws the PRC

"Guangzhou Kuaike Enterprise Management" or "Dongguan Kuaike Investment"	Guangzhou Kuaike Enterprise Management Partnership (Limited Partnership) (廣州快客企業管理合夥企業(有限合夥)), formerly known as Dongguan Kuaike Investment Partnership (Limited Partnership) (東莞市快客投資合夥企業(有限合夥)), a limited partnership established under the laws of the PRC

[**REDACTED**]

"HKFRS"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants

[**REDACTED**]

"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong

[**REDACTED**]

"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited

[**REDACTED**]

"Hongtu Venture"	Dongguan Hongtu Venture Capital Co., Ltd. (東莞紅土創業投資有限公司), a company established with limited liability under the laws of the PRC
"Independent Third Party" or "Independent Third Parties"	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors' knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Company or our connected persons within the meaning ascribed thereto under the Listing Rules

[**REDACTED**]

[**REDACTED**]

"Key Opinion Leader(s)" or "KOL(s)"	person(s) or organization(s) who have expert knowledge and influence in a respective field
"KK Brothers"	KK Brothers Hong Kong Limited, a limited liability company incorporated in Hong Kong and is indirectly wholly owned by TMF (Cayman) Ltd, the trustee of the Liang Family Trust, a trust established by Mr. Liang Jie (梁捷), a non-executive Director, for the benefit of himself and his family
"KK Technology HK"	KK Technology (HK) Company Limited, a company incorporated with limited liability under the laws of Hong Kong and a wholly owned subsidiary of our Company
"Latest Practicable Date"	January 23, 2024, being the latest practicable date for the purpose of ascertaining certain information in this document prior to its publication

[**REDACTED**]

"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

"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
"Matrix"	Hangzhou Chuangqian Investment Partnership (Limited Partnership) (杭州創乾投資合夥企業(有限合夥)), a limited partnership established under the laws of the PRC
"MCSR"	Measures for Cybersecurity Review (《網絡安全審查辦法》)
"Memorandum" or "Memorandum of Association"	the amended and restated memorandum and articles of association of our Company conditionally adopted on [●], with effect from the [**REDACTED**] (as amended from time to time), a summary of which is set out in Appendix III to this document
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"MOGR"	MOGR Holding Co., Ltd., a BVI business company incorporated under the Laws of British Virgin Islands which is 100% owned by Mr. Wu
"Mr. Guo"	Mr. Guo Huibo, an executive Director
"Mr. Wu"	Mr. Wu Yuening, the founder of our Group and an executive Director
"Nomination Committee"	the nomination committee of the Board
"Non-voting Ordinary Share(s)"	the non-voting ordinary share(s) of US$[0.000004] each in the share capital of our Company upon completion of the Share Subdivision, which will be converted to Ordinary Shares on a one-for-one basis on the [**REDACTED**]
"NPC"	National People's Congress of the PRC (中華人民共和國全國人民代表大會)

[**REDACTED**]

[**REDACTED**]

"PBOC"	People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC Government"	the central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
"PRC Legal Advisers"	Haiwen & Partners, acting as legal counsel as to PRC laws to our Company Jingtian & Gongcheng, acting as legal counsel as to PRC laws to our Company
"Preferred Shares" or "preferred shares"	preferred share(s) in the share capital of our Company, including Series Seed Preferred Shares, Series A Preferred Shares, Series B Preferred Shares, Series C Preferred Shares, Series Pre-D Preferred Shares, Series D Preferred Shares, Series E Preferred Shares and Series F Preferred Shares

"[**REDACTED**] Investment(s)"	the investment(s) in our Company undertaken by the [**REDACTED**] Investors pursuant to the respective share subscription agreement(s) and/or share transfer agreement(s) prior to the [**REDACTED**], the details of which are set out in the section headed "History, Reorganization and Corporate Structure" in this document
"[**REDACTED**] Investor(s)"	holders of ordinary Shares, Series Seed Shares and/or Preferred Shares or their respective affiliates, other than the Founder, Mr. Guo and the RSU Trustee

[**REDACTED**]

"QIB"	a qualified institutional buyer within the meaning of Rule 144A
"Regulation S"	Regulation S under the U.S. Securities Act
"Remuneration Committee"	the remuneration committee of the Board
"Reorganization"	the reorganization of our Group in preparation of the [**REDACTED**], details of which are set out in the section headed "History, Reorganization and Corporate Structure" in this document
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RSU"	restricted share unit
"RSU Scheme"	the RSU scheme approved and adopted by our Company on June 23, 2021 for the grant of RSUs to RSU participants following the completion of the [**REDACTED**], a summary of the principal terms of which is set forth in the section headed "Appendix IV — Statutory and General Information — RSU Scheme"

"RSU Trustee"	Futu Trustee Limited, a professional trustee and an Independent Third Party appointed by our Company to act as the trustee to administer the RSU Scheme
"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),
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"SCNPC"	the Standing Committee of the NPC (全國人民代表大會常務委員會)
"Series A Preferred Share(s)"	the series A preferred share(s) of our Company
"Series B Preferred Share(s)"	the series B preferred share(s) of our Company
"Series C Preferred Share(s)"	the series C preferred share(s) of our Company
"Series D Preferred Share(s)"	the series D preferred share(s) of our Company
"Series E Preferred Share(s)"	the series E preferred share(s) of our Company
"Series F Preferred Share(s)"	the series F preferred share(s) of our Company
"Series PRE-D Preferred Share(s)"	the series PRE-D preferred share(s) of our Company
"Series Seed Preferred Share(s)"	the series seed preferred share(s) of our Company
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)" or "Ordinary Share(s)"	ordinary share(s) in the share capital of our Company with a par value of [US$0.000004] each
"Shareholder(s)"	holder(s) of our Share(s)
"Share Subdivision"	the subdivision of each share in our Company's issued and unissued share capital with par value of US$0.0001 each into 25 ordinary shares with par value of US$0.000004 each on [●], the details of which are set out in "History, Reorganization and Corporate Structure"

"Shenzhen Capital Group"	Shenzhen Capital Group Co., Ltd (深圳市創新投資集團有限公司), a company incorporated with limited liability under the laws of the PRC
"Shenzhen Hongtai"	Shenzhen Hongtai Growth Venture Capital Center (Limited Partnership) (深圳洪泰成長創業投資中心(有限合夥)), a limited partnership established under the laws of the PRC
"Single Largest Shareholders Group"	collectively, Mr. Wu, Mr. Guo, MOGR and Starlight

[**REDACTED**]

"Starlight"	Starlight Holding Co., Ltd., a BVI business company incorporated under the Laws of British Virgin Islands which is 100% owned by Mr. Guo
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"subsidiary" or "subsidiaries"	has the meaning ascribed to it under the Listing Rules
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"Takeovers Code"	the Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
"tier-one cities"	according to Frost & Sullivan, composed of the four cities of Beijing, Shanghai, Guangzhou and Shenzhen, following the classification standards of the National Bureau of Statistics of the PRC
"tier-two cities"	according to Frost & Sullivan, composed of provincial capital cities, capital cities of autonomous regions and other sub-provincial cities in the PRC, following the classification standards of the National Bureau of Statistics of the PRC
"Track Record Period"	three years ended December 31, 2020, 2021 and 2022 and ten months ended October 31, 2023

[**REDACTED**]

"United States", "U.S." or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US dollars", "U.S. dollars", "US$" or "USD"	United States dollars, the lawful currency of the United States
"U.S. Securities Act"	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"VAT"	value-added tax
"%"	per cent

For easy of reference, the names of the PRC laws and regulations, governmental authorities, institutions, natural persons or other entitles (including certain of our subsidiaries) have been included in this document in both Chinese and English languages. In the event of any inconsistency, the Chinese versions shall prevail. English translations of official Chinese names are for identification purposes only.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains terms used in this document in connection with our Company and our business. Some of these terms and their meanings may not correspond to standard industry meanings or usage of such terms.

"BI" or "Business Intelligence"	refers to a proprietary data analytical software which collects and analyzes data and information to support business decision-making
"Breakeven Point"	the first month for the revenue of a newly opened store to at least equal to its operational cost
"CAGR"	compound annual growth rate
"FVTPL"	fair value through profit or loss
"Generation Z"	the population of youngsters born during the period from 1996 to 2009
"GMV"	gross merchandise value, referring to the full value of all purchases transacted and settled on the stores operated by our Company
"Investment Payback Point"	refers to the average length of time required to recoup the capital expenditures to open a retail store
"IP(s)"	refers to the design of a single or a series of characters and the underlying intellectual property rights
"KPOS"	refers to a proprietary point of sale system launched by our Company with various critical functions including cash flows, order processing and inventory management
"KVCM"	refers to a self-developed visual control management system with various functions including visualize, synchronize and optimize shelf display management
"Millennials"	the population of youngsters born during the period from 1981 to 1995
"NDC"	refers to the national distribution center
"ODM"	refers to the original design manufacturers which are Independent Third Parties
"OEM"	refers to the original equipment manufacturers which are Independent Third Parties

"OEM and ODM contractors"	refers to the OEM and ODM manufacturers, contractors, subcontractors and suppliers
"offline-driven non-grocery retail"	encompassing non-grocery focused retail businesses that derive a majority of GMV from lifestyle products
"POS"	point of sale system, referring to the location or system where a customer completes a transaction for goods or services
"preposition warehouse(s)"	a mid-to-small size warehousing facility which functions both as a supplement to retail stores in terms of inventory storage, and the last-mile distributor from our national and regional warehouse centers to retail stores
"PSS" or "Product Selection System"	refers to a data analysis platform for merchandise selection
"R&D"	refers to the research and development
"Same store"	Same store includes retail stores that opened for (i) at least 300 days in both 2020 and 2021, (ii) at least 300 days in both 2021 and 2022, or (iii) at least 250 days in both the ten months ended October 31, 2022 and 2023, respectively
"SKU"	stock keeping unit, a unique identifier for each distinct product and service that can be purchased
"TERP"	refers to a proprietary enterprise resource planning software system launched by our Company which integrates various business processes and functions within an organization
"Third Party Brand Suppliers"	refers to the brand owners, local authorized dealers and distributors directly from whom we source merchandise
"3R"	refers to reducing, reusing and recycling
"WMS"	warehouse management system

FORWARD-LOOKING STATEMENTS

We have included in this document forward-looking statements that are not historical facts but relate to our intentions, beliefs, expectations or predictions for future events and conditions which may not materialize or may change. Even though these statements have been made by our Directors after due and careful consideration and on bases and assumptions that we believe are fair and reasonable at the time, they nevertheless involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. Some of the risks and uncertainties are listed in the section headed "Risk Factors" and elsewhere in this document. In some case, you can identify these forward-looking statements by words or phrases such as "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "going forwards", "intend", "may", "ought to", "plan", "potential", "predict", "project", "propose", "seek", "should", "will", "is going to", "would" or similar expressions, or their negatives. These forward-looking statements include, but are not limited to, the following:

- our future business development, financial condition and results of operations;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the industry and in markets in which we operate;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- the effects of the global financial markets and economic crisis, and development of pandemic status in countries and regions where we operate;
- our ability to identify and integrate suitable acquisition targets;
- our ability to control or reduce costs;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- exchange rate fluctuations and restrictions;
- the actions and developments of our competitors; and
- risks identified under the section headed "Risk Factors" of this document.

This document also contains market data and projections that are based on a number of assumptions. The markets may not grow at the rates projected by the market data, or at all. The failure of the markets to grow at the projected rates may materially and adversely affect our business and the market price of our Shares. In addition, due to the rapidly changing nature of the PRC economy and the retail industry, projections or estimates relating to the growth prospects or future conditions of the markets are subject to significant uncertainties. If any of the assumptions underlying the market data prove to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

We do not guarantee that the transactions and events described in the forward-looking statements in this document will happen as described, or at all. Actual outcomes may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risks and uncertainties set out in the section headed "Risk Factors" in this document. You should read this document in its entirety and with the understanding that actual future results may be materially different from what we expect. The forward-looking statements made in this document relate only to events as of the date on which the statements are made or, if obtained from third-party studies or reports, the dates of the respective studies or reports. Since we operate in an evolving environment where new risks and uncertainties may emerge from time to time, you should not rely upon forward-looking statements as predictions of future events. We undertake no obligation, beyond what is required by law, to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made, even when our situation may have changed.

In addition to other information in this document, you should carefully consider the following risk factors, which may not be typically associated with **[REDACTED]** *in equity securities of companies from other jurisdictions, before making any* **[REDACTED]** *decision in relation to the* **[REDACTED]**. *Any of the following risks, as well as other risks and uncertainties that are not yet identified or that we currently think are immaterial, may materially and adversely affect our business, financial condition or results of operations, or otherwise result in a decrease in the* **[REDACTED]** *price of our Shares and cause you to lose part or all of the value of your* **[REDACTED]** *in our Shares.*

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our sales depend on the popularity of the brands and merchandise we offer, as well as customer preferences and spending patterns. We may not be able to identify changing consumer preferences towards the merchandise we offer in our sales channels in a timely manner.

The store performance is sensitive to customer spending patterns. If we or our brand companies fail to anticipate increased customer demand for the merchandise we sell, we may experience inventory shortages, which would result in lost sales and negatively affect our profitability.

Furthermore, changes in economic conditions affect the level of customer spending on the merchandise we sell. Customer spending patterns are affected by, among other factors, general and local economic conditions, interest rates, inflation, taxation, government austerity measures, uncertainties about future economic prospects and shifts in discretionary spending towards other goods and services. Customer preferences, spending habits and economic conditions may differ or change from time to time in the markets in which we operate. We cannot guarantee that we will be able to maintain our historical growth rates of revenue and profit, or remain profitable, particularly if the retail environment is stagnant or declines in the event of a recession in the general economy.

The life cycle of the merchandise is getting shorter as consumer preferences change frequently. The success of our business is largely dependent on our ability to anticipate future market trends of the merchandise supplied by us and consumer preferences in a timely manner. Consumer preferences differ across and within different regions in China and among different customer groups, and they are influenced by social media, economic circumstances and the demographic profile of the target customers.

As industry trends and consumer preferences and behavior continue to change, we must also continually work to offer and supply new merchandise, and achieve a favorable mix of merchandise and refine our approach as to how and where we market and sell our merchandise. Our success depends on the appeal of our offered merchandise to a broad range of consumers whose preferences and behavior cannot be predicted with certainty and may change rapidly, and on our ability to anticipate and respond in a timely and cost-effective manner to industry trends and consumer preferences through merchandise innovations, merchandise line extensions and marketing and promotional activities. We cannot assure you that we will be able to successfully anticipate and respond to consumer preferences and behavior at all times, especially as we continue to broaden our consumer base and diversify our merchandise offerings aimed at customers with differing characteristics. If we are unable to anticipate and respond to the changes in industry trends and consumer preferences and behavior, we may fail to continuously develop merchandise with wide market acceptance, capture emerging growth opportunities, adopt competitive sales strategies for our existing merchandise, or properly predict and manage our inventory. Such failure could also negatively impact our brand image and result in diminished customer experience and brand loyalty. Any of these occurrences could materially and adversely affect our business, prospects and results of operations.

Failure to maintain good relationships with or secure competitive terms from brand companies may materially and adversely affect our profitability, business and prospects.

We believe that the popularity and strength of the brands that we carry are critical to our success. We source merchandise directly from Third Party Brand Suppliers. The success of our business and our growth depend to a significant extent on our relationships with the Third Party Brand Suppliers. As of October 31, 2023, we sourced merchandise locally and globally from 1,179 Third Party Brand Suppliers. Our brand companies enjoy strong bargaining power vis-à-vis their distributors, including us. If we are unable to maintain good relationships with Third Party Brand Suppliers, we may not be able to secure competitive terms from them, and our costs may increase. In particular, we depend significantly on our ability to source merchandise from them at favorable pricing terms, typically at a discount to the suggested retail prices. We cannot assure you that our Third Party Brand Suppliers will continue to sell merchandise to us on commercially acceptable terms, or at all. If we are not able to source merchandise from our brand companies at favorable pricing terms, our revenue, profit and profit margin may be materially and adversely affected.

We also may not be able to receive adequate support from our Third Party Brand Suppliers in terms of marketing and promotion of their brand names leveraging their capital and public relation resources, merchandise development, personnel training and intellectual property. In addition, our financial performance and our ability to increase our penetration in our existing markets and expand into new markets depends on our Third Party Brand Suppliers' willingness and ability to supply sufficient quantities of merchandise to us. The inability or unwillingness of our Third Party Brand Suppliers to supply merchandise to us at acceptable prices, or changes in the supply polices of our Third Party Brand Suppliers, could lead to a decrease in our profit. Any negative developments in our relationships with our Third Party Brand Suppliers could materially and adversely affect our business and growth prospects.

In addition, there is no assurance that there will not be any material dispute between us and any of these Third Party Brand Suppliers in connection with the performance of a party's obligations or the compliance with a party's responsibilities under the relevant arrangement between us and these Third Party Brand Suppliers. If our relationship with any of these Third Party Brand Suppliers deteriorates, our results of operations and prospects may be materially and adversely affected.

Furthermore, as of October 31, 2023, we were the exclusive distributor in China for 12 third party brands. If we lose our exclusive distribution rights with these Third Party Brand Suppliers, we will be subject to intensified competition and our business and results of operations may be materially and adversely affected.

Some of our distributorship agreements with Third Party Brand Suppliers have terms that limit our ability to sell their merchandise through avenues other than those as specified in the agreements in respect to territory and channels. These limitations may hinder our business expansion plan and intensify the competition we may face in the market.

We may not be able to effectively manage the growth of our store network.

The success of our retail operations is dependent on a number of factors, including our ability to introduce brands and merchandise that cater to local demands and preferences, the success of the marketing efforts by us and the brand companies, and our ability to compete with other retailers and distributors of the similar merchandise we offer in the stores.

We are constantly reviewing our sales performance data, both by sales channels and by brand. We rapidly grew our store network during the Track Record Period, and managed to increase number of retail stores from 556 as of December 31, 2020 to 724 as of October 31, 2023. The expansion of our offline sales network is intended to benefit our growth in the long term. However, it takes time for new retail stores to break even and achieve the same level of profitability as more mature retail stores. As we expand our offline sales network by adding new retail stores, we may experience a decrease in average sales per store, at least initially. If new retail stores experience prolonged delays in breaking even or achieving our desired level of profitability, our overall profitability may be affected. In addition, there are variations in terms of store revenue contribution from existing stores under our four retail brands, and there are no assurance that each retail store shares similar sales performance and we will continue to grow our sales with existing stores, due to various factors, such as local economic conditions, customer disposable income, spending patterns and ever-changing customer preference, the pedestrian flow of the area where retail stores are located and the competition that we encounter, many of which are out of our control. The sales performance of a particular retail store is also subject to the relevant store's length of operation period, store size in terms of floor plan, featured merchandise, as well as different product categories.

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.

During the Track Record Period, we experienced an increase in the number of loss-making stores, primarily because these stores' sales performance was adversely affected by one or more factors, including the adverse effects of the COVID-19 pandemic, being a new store opened in the relevant period, being a store which was still in the ramp-up period, the weak customer traffic in the shopping mall where a relevant store was, and the weak customer traffic due to the nearby road construction. There is no assurance that all of these loss-making stores will turn profitable in the short term or within the expected time frame considering factors such as consumers' purchasing capacity and preference, local economic conditions, pedestrian flow of the store locations, and density of retail stores in same industry within the nearby locations. See "Business — Our Retail Business Model — Store Economics — Loss-making Stores." In addition, our loss from operations margin, being the percentage of loss from operations to revenue, was 8.7%, 6.7% and 9.1% in 2020, 2021 and 2022. See "Financial Information — Key Financial Ratios."

If we are unable to increase store sales in line with increasing costs, our overall performance and profitability will be adversely affected. Any decrease may be caused in part by a slowdown in growth in China's retail industry, adverse changes in merchandise supplies from certain brand companies and slower replenishment timing of inventory of certain imported merchandise. We cannot assure you that we will be able to maintain a relatively higher same-store sales growth in the future.

We may not be successful in sustaining growth in our financial performance.

Our revenue increased by 114.1% from RMB1,645.9 million in 2020 to RMB3,523.9 million in 2021. However, there is no assurance that we will be able to maintain our historical growth rates in future periods. Our revenue increased by 0.8% from RMB3,523.9 million in 2021 to RMB3,551.0 million in 2022. Our revenue growth may slow down or our revenue may decline for a number of possible reasons, including decreasing customer spending, increasing competition from other online and offline retailers and distributors, slower growth in China's retail or online retail industry, supply chain and logistical bottlenecks, emergence of alternative business models and changes in government policies or general economic conditions. If our growth rate declines, [**REDACTED**] perceptions of our business and prospects may be adversely affected and the [**REDACTED**] price of our Shares could decline.

In addition, our profitability depends on our ability to control costs and operating expenses, which may increase as our business expands and negatively impact our short-term profitability. If we fail to increase sales, or if our cost of sales and operating expenses grow faster than our sales, our business, financial condition and results of operations may be negatively affected.

Increase in the absolute number and proportion of self-owned stores in our total number of stores can improve our sales and operation efficiency in the stores. See "Financial Information — Path to Profitability." During the Track Record Period, there were 185 franchise stores converted into self-owned stores by asset acquisition and there were 175 franchise stores converted into self-owned stores by equity acquisition. See "Business — Store Network Optimization Initiatives." However, such initiatives may not contribute to our long-term sustainability since the number of self-owned stores already accounted for 84.9% of our total number of stores as of October 31, 2023.

We may lose our distribution rights to sell certain brand merchandise in our distribution channels and/or fail to renew these distribution agreements which could have adverse effect on our business.

Our business success relies on having a broad range of merchandise portfolio. Our Third Party Brand Suppliers may change their existing sales or marketing strategy in respect of the merchandise supplied to us by selling those merchandise directly to our end consumers without going through our Group, changing their business strategy or reducing their sales on volume. While we are granted distribution rights by a few of our Third Party Brand Suppliers in China, they may terminate the distribution rights by changing the terms of distributorship agreements. Consequently, there is no assurance that such major Third Party Brand Suppliers will not appoint other dealers or distributors which may compete with us.

Our ability to maintain our existing distributorship agreements and to enter into new agreements with our Third Party Brand Suppliers is critical to the growth of our business. Our distributorship agreements with our Third Party Brand Suppliers, which generally have a term of one year, may be renewed based on negotiations between our brand companies and us. Factors that our brand companies may consider in these negotiations may include our sales performance during previous contract terms, our compliance with our brand companies' general policies and procedures and the distributorship agreements, our relationships with our brand companies, general market conditions and our brand companies' overall development strategies and plans. Some of these factors are beyond our control. There is no assurance that we will be able to maintain and renew our existing distributorship agreements with our Third Party Brand Suppliers on terms favorable to us, or at all.

There is no assurance that there will be no deterioration in our relationship with our Third Party Brand Suppliers which could affect our ability to secure sufficient supply of merchandise for our business. In the event that any of our Third Party Brand Suppliers changes its sales or marketing strategy or otherwise appoint other dealers or distributors who may compete with us, our business, financial condition and operating results could be materially and adversely affected.

Unauthorized use of our Third Party Brand Suppliers' brands or allegations against us regarding the merchandise we sell may adversely affect our business.

We sell merchandise supplied by our Third Party Brand Suppliers. We cannot assure you that there will be no unauthorized sale of counterfeit merchandise under these brands. Any public perception that non-authentic or counterfeit merchandise under these brands is widespread in China, regardless of its veracity, could damage our reputation, reduce our ability to attract new end consumers or retain our existing end consumers, and diminish the value of the brands we carry. As a result, our business and growth prospects may be materially and adversely affected.

In addition, we have been the subject in the past, and may be subject to allegations that some of the merchandise sold through our sales channels is counterfeit or without authorization from the relevant brand companies. We can provide no assurance that the measures we have adopted in the course of sourcing such merchandise to ensure its authenticity or authorization and to minimize potential liability of infringing third parties' rights will be effective. Any inadvertent sale of counterfeit, non-authentic or unauthorized items, or public perception of such incidents, could harm our reputation, impair our ability to attract and retain end consumers and cause us to incur additional costs to respond to any incident of this nature.

In the event that counterfeit merchandise, unauthorized merchandise or merchandise that otherwise infringe third parties' intellectual property rights are sold in our stores, we could also face infringement claims. In the event that we are subject to any such claim or negative publicity relating to these activities or for our alleged failure to act in a timely or effective manner in response to such infringement or to otherwise restrict or limit these activities, irrespective of the validity of such claims, we could be required to allocate significant resources and incur material expenses regarding such claims.

We may also choose to compensate customers for any losses, although we are currently not legally obligated to do so. As a result of regulatory developments, we could also be required to pay substantial damages or to refrain from the sale of relevant merchandise in the event that the claimant prevails in such proceedings. Forms of potential liabilities under PRC law, if we negligently participated or assisted in infringement activities associated with counterfeit goods, include injunctions to cease infringing activities, rectification, compensation and administrative penalties. Moreover, our reputation could be negatively affected due to the negative publicity of any infringement claim against us. Any such claims could have a material adverse effect on our business, prospects, financial condition and results of operations.

We rely on third-party OEM and ODM contractors for the manufacturing of our self-owned brand merchandise. Our brand image and business may be negatively affected by a disruption in the supply of our OEM and ODM contractors.

We develop our self-owned brand merchandise through the engagement of OEM and ODM contractors and we further sell the finished merchandise to our customers in the stores. All of the merchandise of our self-owned brands is outsourced to OEM and ODM contractors.

We select our OEM and ODM contractors based on stringent criteria. See "Business — Our Suppliers and Raw Materials — Our OEM and ODM Contractors — Selection of OEM and ODM Contractors." However, we cannot assure you that our OEM and ODM contractors will deliver merchandise to us in a timely manner or are of satisfactory quality. In addition, there is no assurance that they will continue to work with us on similar terms or at all in the future, or that they will have sufficient resources to meet our demand at all times. If the performance of any of our OEM and ODM contractors is not satisfactory, or an OEM and ODM contractor decides to substantially reduce its volume of supply to us, to increase the prices of its merchandise or to terminate its business relationship with us, we may need to find alternative OEM and ODM contractor or take other remedial actions, which could increase the cost and lengthen the time required to dispatch the merchandise we sell in the stores.

In addition, as we exercise limited control over the operations of our OEM and ODM contractors, we cannot ensure that they will adhere to our quality control policies and guidelines at all times. Any defect in the merchandise designed or manufactured by our OEM and ODM contractors could subject us to merchandise liability or damage our reputation and reduce the demand for the merchandise we sell. Furthermore, we cannot assure you that our OEM and ODM contractors will fully comply with the applicable laws and regulations, such as labor and environmental laws. If there is any negative publicity regarding such non-compliance, our brand image may be damaged.

We incurred loss for the year in the past, and we may continue to experience significant loss for the year in the future.

During the Track Record Period, we incurred significant loss for the year primarily due to our loss from operations and substantial negative fair value changes of financial liabilities measured at FVTPL. See "Financial Information — Description of Select Consolidated Statements of Comprehensive Income Line Items — Fair Value Changes of Financial Liabilities Measured at FVTPL." In 2020 and 2021, we incurred loss for the year of RMB2,017.2 million and RMB5,681.4 million, respectively. Our future profitability will be dependent upon several factors, including the expansion and performances of our self-owned stores and franchise stores, competitive landscape, customer preference and macroeconomic and regulatory environment. Therefore, our revenues may not grow at the rate we expect and it may not increase sufficiently to offset the increase in our expenses. We may continue to incur losses in the future and we cannot assure you that we will eventually achieve our intended profitability.

We recorded net operating and investing cash outflow and net liabilities during the Track Record Period.

We recorded net cash outflow from operating activities of approximately RMB314.1 million and RMB589.7 million and net cash inflow of RMB295.3 million, RMB220.0 million and RMB1,201.7 million in 2020, 2021 and 2022 and the ten months ended October 31, 2022 and 2023, respectively. We also recorded net cash outflow from investing activities of approximately RMB525.6 million, RMB399.2 million, RMB46.7 million and RMB236.9 million in 2020, 2021 and 2022 and the ten months ended October 31, 2023, respectively. See "Financial Information — Liquidity and Capital Resources."

Our net liabilities were RMB2,709.8 million, RMB8,172.1 million, RMB8,362.8 million and RMB8,217.5 million as of December 31, 2020, 2021 and 2022 and October 31, 2023, respectively. See "Summary — Summary of Consolidated Statements of Financial Positions."

Regardless of the performance from our operating activities and investing activities, we may experience periods of net cash outflow from operating activities and investing activities in the future. For instance, we may from time to time need to incur additional working capital for purchase and replenishment of additional inventories, payment of rental deposits, renovation and acquisition of equipment and employment of additional staff in the course of opening additional retail stores, which may not be able to result in immediate increase in net operational cash inflow. If we are unable to obtain sufficient funds to finance our business operation or expansion, our liquidity and financial condition may be materially and adversely affected. There is no assurance that we will have sufficient cash from other sources to fund our operations or expansion. If we resort to other financing activities to generate additional cash, we will incur additional financing costs, and we cannot guarantee that we will be able to obtain the required financing on terms acceptable to us, or at all.

If we fail to protect our intellectual property rights, our business, financial conditions and results of operations would be severely harmed.

Our intellectual property rights, in particular our retail brand names, KKV, THE COLORIST, X11 and KK Guan are crucial business assets, key to customer loyalty and essential to our future growth. The success of our business depends substantially upon our continued ability to use our brand, trade names and trademarks to increase brand recognition and to further develop our brand. The unauthorized reproduction of our trade names or trademarks could diminish the value of our brand and our market reputation and competitive advantages. We rely on a combination of trademarks, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property rights. Nevertheless, these may afford limited protection and the measures to prevent unauthorized use of proprietary information could be challenging and costly. Any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated, or such intellectual property rights may not be sufficient to provide us with competitive advantages. Besides, there can be no assurance that (i) our pending applications for intellectual property rights will be approved, (ii) all of our intellectual property rights will be adequately protected, or (iii) our intellectual property rights will not be challenged by third parties or found by a judicial authority to be invalid or unenforceable. If we were unable to detect unauthorized use of, or take appropriate steps to enforce, our intellectual property rights, it could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to provide satisfying customer experiences, our business and reputation may be materially and adversely affected.

Our retail capabilities to ensure wide-ranging merchandise choices, good store atmosphere, shopping convenience, appropriate staff-customer interaction and merchandise refreshments and display policies are crucial when it comes to creating satisfying shopping experiences for our customers. We believe the success of our business hinges on our ability to provide such satisfying customer experience, which in turn depends on a variety of factors. These factors include our ability to offer brand merchandise to the market at competitive prices that respond to consumer demands and preferences, our ability to fit in the lifestyle of our customers and our ability to maintain the quality of our merchandise and services, provide timely and reliable delivery and responsive and satisfying before- and after-sales service.

As of October 31, 2023, we had 4,669 in-store staff working in our self-owned stores. We provide standardized employee conduct training for all our in-store staff and maintain a detailed employee handbook regulating employee conduct. However, there is no assurance that our in-store staff will provide consistently satisfying customer services to our customers. In addition, as the number of our in-store staff continues to rapidly expand along with our growth, it may be harder for us to manage our in-store staff and ensure the quality of services they provide to our customers. Any negative customer service experience with our in-store staff in our physical retail stores may discourage customers from purchasing our merchandise and adversely affect our reputation and brand image. There is no assurance that we will be able to maintain a low turnover rate of existing employees and provide sufficient training to new employees to meet our standards of customer service or that an influx of less experienced personnel will not dilute the quality of our customer service. In addition, any negative publicity or poor feedback regarding our customer service may harm our brand and reputation and in turn cause us to lose customers and market share.

We may experience complaints from our customers, or adverse publicity involving our merchandise, our service or our prices.

Our brand reputation and recognition may be significantly impaired by negative news and publicity posted online and on other channels. Either failure of suppliers to provide us with quality and safe merchandise, or our failure to implement various stringent internal standard operational procedures could give rise to disruption, if not termination, of our business operations. Besides, we have no control over other issues relating to the taste, preference and suitability of our merchandise for our customers. During the Track Record Period, we received a certain number of complaints following the dissatisfaction perceived by our customers. Most of these complaints were related to the taste, the price, the suitability of our merchandise, as well as service quality provided by our online customer service. Despite our efforts and willingness to properly address such incidents in a timely manner, we cannot guarantee that the complaints can always be resolved, or at all. If we fail to manage customers' complaints efficiently and effectively, our customers might post negative reviews about us on social media platforms, which could materially and adversely affect our business.

Any complaints or claims against us, even if meritless and unsuccessful, may divert management attention and other resources from our business and adversely affect our business and operations. Our customers may lose confidence in us and our brand, which may adversely affect the business of our stores, resulting in declines in our revenue and even losses. Furthermore, negative publicity including but not limited to negative online reviews on social media and crowd sourced review platforms or media reports related to our merchandise, stores and services, whether or not accurate, and whether or not concerning our stores and the brands we offer, can adversely affect our business, results of operations and reputation.

The determination of the fair value changes of financial liabilities measured at FVTPL could affect our Group's financial performance.

We have historically issued convertible redeemable preferred shares and redemption liabilities from series A to series F to investors. See "History, Reorganization and Corporate Structure — Our Corporate History and Major Shareholding Changes of Our Group." We designate convertible redeemable preferred shares and redemption liabilities as financial liabilities at FVTPL. Any transaction costs and subsequent changes in fair value are recognized as expenses in profit or loss. In 2020, 2021 and 2022 and the ten months ended October 31, 2022 and 2023, our fair value changes of financial liabilities measured at FVTPL was a loss of RMB1,842.5 million, a loss of RMB5,356.8 million, a gain of RMB489.2 million, a gain of RMB456.0 million and a loss of RMB10.0 million, respectively. As of December 31, 2020, 2021 and 2022 and October 31, 2023, financial liabilities measured at FVTPL were RMB3,972.2 million, RMB11,117.4 million, RMB10,628.2 million and RMB10,638.2 million, respectively. See note 27 to the Accountants' Report in Appendix I to this document.

We use significant unobservable inputs, such as discount rate, risk-free interest rate and volatility, in valuing convertible redeemable preferred shares and redemption liabilities. The fair value change of convertible redeemable preferred shares and redemption liabilities may significantly affect our financial position and performance. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair value of such liabilities. These factors include, but not limited to, general economic conditions, changes in market interest rates and stability of the capital markets. Any of these factors could cause our estimates to vary from actual results, which could materially and adversely affect our results of financial conditions.

We are or may continuously be subject to risks related to our investment in equity securities.

During the Track Record Period, we collaborated with our business partners in various aspects to achieve greater synergy in our business operations. As and when we consider it commercially beneficial, we would make equity investments and hold certain equity interests in relevant entities. As of December 31, 2020, 2021 and 2022 and October 31, 2023, our investment in equity securities, which was measured at FVTPL, was nil, RMB10.0 million, RMB10.6 million and RMB9.5 million, respectively. See "Financial Information — Discussion of Certain Statements of Financial Position Items — Current Assets and Current Liabilities — Other Investments" and notes 2(g), 18 and 28(e) to the Accountants' Report in Appendix I to this document. Investment in equity securities could subject us to a number of risks beyond our control, including risks associated with the fair value change in the valuation of relevant entities, reveal of trade secret or other proprietary information, non-performance or deteriorated business management by relevant entities, and exposure to fluctuating market conditions of the invested business. To the extent that relevant entities suffer negative publicity or harm to their reputation, we may also suffer the same to varying degrees by virtue of our investment in such equity securities. In the event that one or more risks mentioned above were to materialize, our business, results of operations and financial condition could be adversely affected. Besides, there is no assurance that our equity interest in relevant entities would be able to achieve the expected productivity or profitability, or at all.

We may not be able to continue to successfully expand our merchandise offerings and brand portfolio.

We constantly seek to diversify and expand our brand and merchandise portfolio by partnering with new brand companies through distributorship agreements or procurement agreements. However, whether we will be able to establish new partnerships with new brand companies is dependent upon a number of factors, including whether there will be suitable brand companies seeking new distributors in the relevant markets, whether our distribution infrastructure and our corporate culture would be a good match with those brand companies, whether our competitors would be able to offer terms more favorable than ours and whether those brand companies may perceive that we have a conflict of interest, including as a result of our relationship with competing brands. There is no assurance that we can enter into new distributorship agreements that will support our growth.

If we partner with new brand companies, we will need to recruit more staff with expertise in managing different brands and merchandise categories, and to enhance our operational and financial systems, internal procedures and controls. It may also require us to introduce new merchandise categories and work with different brand companies to address the needs of different kinds of end consumers. We may also need to develop new marketing strategies to promote these new brands and merchandise. Our expansion into these new brands and merchandise categories may not achieve broad customer acceptance. All of these endeavors involve risks, and require substantial planning, skillful execution and significant expenditures. There is no assurance that we will be able to recoup any investments we make in introducing these new brands and merchandise categories.

There is no assurance that we will be able to successfully integrate new brands or merchandise categories into our existing brand and merchandise portfolio. The new brands or merchandise we introduce may not be well received by our customers. We cannot assure you that any new brands or merchandise we offer will gain market acceptance or that they will be able to generate a positive cash flow. In addition, our profitability in our new merchandise categories, if any, may be lower than in our existing categories, which may adversely affect our overall profitability and results of operations. Furthermore, the introduction of new brands and merchandise may adversely affect the sales of our existing merchandise offerings and brand portfolio, and we cannot assure you that we will maintain an optimized merchandise offerings and brand portfolio at all times. If we are not able to manage our growth or execute our strategies effectively, we may not be successful in growing our business and our business and prospects may be materially and adversely affected.

We recognized a certain scale of goodwill and other intangible assets and our financial condition and results of operations could be materially impacted if we determine our goodwill and/or intangible assets to be impaired.

We recorded goodwill of nil, nil, RMB83.3 million and RMB87.0 million as of December 31, 2020, 2021 and 2022 and as of October 31, 2023, respectively. The goodwill primarily arose from our acquisition of four joint ventures from October 2022 to December 2022 and one joint venture in the ten months ended October 31, 2023, increasing our shares in each of the five joint ventures from 50% to 100%. Such goodwill recorded reflected the excess of the aggregate of the fair value of the consideration transferred over the total fair value of identifiable net assets of the joint ventures we acquired. Goodwill is tested for impairment at least on an annual basis, with an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Our intangible assets were RMB2.1 million, RMB3.3 million, RMB69.4 million and RMB51.8 million as of December 31, 2020, 2021 and 2022 and as of October 31, 2023, respectively, which mainly represented software, trademarks and reacquired rights. Internal and external sources of information are reviewed to identify indications that goodwill and other intangible assets may be impaired. See note 2(k)(ii), note 13 and note 14 to the Accountants' Report in Appendix I to this document. During the Track Record Period, we did not recognize impairment losses in respect of goodwill or intangible assets.

Nevertheless, the evaluation of potential impairment was based on the financial forecasts approved by our management. There are inherent uncertainties relating to these assumptions and our management's judgment in assessing the recoverability of the goodwill. We cannot assure you that our assumptions will prove to be correct. If any of the assumptions does not materialize, or if the performance of the acquired business is not consistent with such assumptions, we may be required to write-off part or all of our goodwill and record an impairment loss. In addition, adverse changes in the future may result in decrease in the value of our intangible assets, which in turn would result in an impairment loss. We also make certain assumptions when assessing the value of our intangible assets, including assumptions on their useful lives. Any change in our assumptions may require us to re-value our intangible assets. If we need to recognize significant impairment losses on goodwill and other intangible assets, our financial condition may be adversely affected.

From time to time we may evaluate and consummate acquisitions, which may not be successful and may adversely affect our operation and financial results.

To complement our business and strengthen our market-leading position, we may from time to time form strategic alliances or consummate acquisitions. From October 2022 to October 2023, we entered into equity transfer agreements with 19 Independent Third Parties to acquire equity interest, including (i) five franchisees who transferred 50% of the shares in our five joint ventures respectively to us, and (ii) 14 minority shareholders who transferred 49% of the shares in our 14 non-wholly owned subsidiaries respectively to us, increasing our equity interest in the foregoing 19 companies to 100%. As a result of the acquisitions of the foregoing 19 companies, 175 franchise stores with investment and 282 non-wholly owned stores were converted into wholly owned stores as of October 31, 2023.

Some of the risks and uncertainties in connection with the acquisitions that could cause actual results to differ materially include, but are not limited to, the fact that the integration of the target company may require significant times, attention and resources, potentially diverting management's attention from the conduct of our business, and the expected synergies from the acquisition may not be realized. We may experience difficulties in integrating our operations with the newly invested or acquired business, implementing our strategies or achieving expected levels of revenue, profitability, productivity or other benefits. Therefore, we cannot assure that our investments or acquisitions will benefit our business strategy, generate sufficient net profit to offset the associated investment or acquisition costs, or otherwise result in the intended benefits.

We may not be able to compete effectively with other offline-driven non-grocery retailers for lifestyle products in the highly competitive and fragmented offline-driven non-grocery retail market in China.

We compete with other offline-driven non-grocery retailers for lifestyle products primarily for the brand offerings, depth and breadth of sales and distribution network, customer relationships, merchandise quality and safety, merchandise mix, supply chain management and ability to meet consumer preferences. As we operate primarily as a non-exclusive distributor for most of the brands in our brand portfolio, we compete with other offline-driven non-grocery retailers for lifestyle products. Some of our competitors may have more financial and human resources, better access to attractive store locations, more competitive pricing strategies or closer relationships with brand companies. A number of different competitive factors could have a material adverse effect on our operational results and financial condition. Competition may lead to less favorable terms in agreements with brand companies, higher costs for retail space and lower sales per store, all of which could have a material adverse effect on our results of operations and financial condition.

We may not be able to successfully expand our offline sales network by increasing the number of self-owned stores and franchise stores.

Our extensive offline sales network has been critical in driving our business growth and operating results. As of October 31, 2023, there were 615 self-owned stores and 109 franchise stores. To further increase our market share, we plan to continue to expand the geographic coverage of self-owned stores and franchise stores and deepen our market penetration. However, there are a number of factors that could affect our ability to open new retail stores. These factors could also affect the ability of any newly opened retail stores to achieve sales and profitability levels comparable with our existing stores or to become profitable at all. These factors include:

- our ability to identify suitable sites and locations;
- the availability of adequate management and financial resources;
- our ability to negotiate acceptable rental terms;
- our ability to maintain efficient and cost-effective operation;
- our ability to adapt our logistics and other operational and management systems to an expanded network;
- our ability to hire, train and retain skilled personnel;
- continued customer demand for the merchandise we sell at levels that can support acceptable profit margins;
- our ability to address increasing competition in the industry;
- our ability to address fluctuations in market demand for the merchandise we sell;
- our ability to obtain all necessary governmental and third-party consents; and
- increasing competition in the retail industry.

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, including our ability to recruit qualified personnel with the necessary experience to operate new self-owned stores and franchise stores in the new markets that we are entering into. We cannot assure you that our personnel, procedures, systems and controls will be effectively managed to support our future growth. In addition, we may not be able to effectively integrate any new store into our existing operations. If we are unable to effectively manage our expansion or control rising costs associated with our expansion, our growth potential and profitability could be adversely affected.

We may not complete the business registration for a certain number of transitional stores and thus may not obtain share of profits or may lose our initial investment in the relevant stores if they are loss-making or closed.

During the Track Record Period, we entered into investment arrangements with the relevant franchisees under which we set up a joint venture where each of the franchisee and us held 50% of the shares. Both parties own respective franchise stores through the joint venture, where each party is entitled to share profit and loss of relevant stores based on their 50% of contributions. As of the Latest Practicable Date, we were still in the process of completing the business registration for a certain number of transitional stores. See "Business — Self-owned Stores and Franchise Stores — Franchise Stores with Investment." If we are unable to complete the business registration, we may not be able to gain opportunities for long-term investment return, retain quality franchisees or expand store network in the way we expected.

Furthermore, if we fail to complete the business registration, we may not be able to convert our initial investment in the relevant stores into equity investment in the joint venture, and may not be able to obtain share of profits, if the relevant stores record net loss, or may not be able to recollect our initial investment if the relevant stores are eventually closed down. In contrast, if we are able to complete the business registration and hold 50% of the shares in the relevant joint venture, we are entitled to share profit and loss of relevant stores based on our 50% of contribution in the joint venture and we will not lose our equity investment in the joint venture as a whole, and would still be entitled to share profit and loss of other existing stores set under the joint venture, even if one particular under-performing store is closed down.

Our results of operations are subject to the risks associated with share of losses from joint ventures and the related liquidity risk.

As of December 31, 2020, 2021 and 2022 and October 31, 2023, we set up nine, nine, 11 and 10 joint ventures with the relevant franchisees. See "Business — Self-owned Stores and Franchise Stores — Franchise Stores with Investment." As of December 31, 2020, 2021 and 2022 and October 31, 2023, we recorded investment in joint ventures of RMB51.4 million, RMB119.2 million, RMB38.4 million and RMB41.7 million, respectively. In 2020, 2021 and 2022 and the ten months ended October 31, 2022 and 2023, we recorded share of losses from joint ventures of RMB16.2 million, RMB32.3 million, RMB81.7 million and RMB71.8 million, and share of profit from joint ventures of RMB11.1 million, respectively.

If the joint ventures do not perform as expected or do not generate sufficient profit in any financial period, our return on interests in the joint ventures, our financial condition or results of operations, could be materially and adversely affected. We are also subject to the risk that the joint ventures may make business, financial or management decisions with which we disagree, or the management of the joint ventures may take risks or otherwise act in a manner that does not serve our interests.

In addition, our investments in joint ventures may subject us to liquidity risks as we may be required to fulfill capital injections as agreed subject to the capital needs and financial performance of these joint ventures. Even if profits of these joint ventures are recognized, we may not immediately receive any final remittance of surplus funds, which are typically in the form of dividend distribution. Dividend distribution of these joint ventures is generally subject to the applicable laws and regulations. As a result, our results of operations may continue to be subject to fluctuations in future periods in conjunction with our investments in joint ventures and their performance.

An increase in the level of rental expenses will increase our selling and distribution as well as administrative and other operating expenses and may adversely affect our operations and profitability.

We operate our retail shops in shopping malls we lease from major shopping malls and we also use leased properties for our offices and distribution centers. In 2020, 2021 and 2022 and the ten months ended October 31, 2022 and 2023, our rental expenses, which equaled to the sum of (i) depreciation of right of use assets, (ii) interests on lease liabilities and (iii) other rental expenses related to our self-owned stores, offices and distribution centers were approximately RMB180.7 million, RMB415.4 million, RMB548.4 million, RMB443.6 million and RMB506.7 million, representing 11.0%, 11.8%, 15.4%, 12.5% and 10.6% of our revenue for the corresponding periods, respectively. In recent years, property prices and levels of rental expenses in China have substantially increased and we expect they will continue to increase in the near future. The increase in the level of rental expenses may increase our selling and distribution expenses when we open new retail shop or when we renew the lease agreements relating to our existing retail shops.

The term of our lease agreements typically range from three to eight years. We cannot assure you that shopping malls will not increase the rental charged to us when we seek to renew our lease agreements or to request for better locations for our retail shops, or that we will be able to renew the lease agreements on the same terms or on terms that are more favorable to us or at all. Any material increase in the level of our rental expenses which we may not pass on to our end consumers may have a material adverse impact on our business, financial condition, results of operations and prospects.

We are subject to customer concentration risk.

Our customers consist primarily of our franchisees. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, our revenue derived from our five largest customers in each year or period during the Track Record Period was 22.3%, 20.5%, 17.6% and 11.8% of our total revenue, respectively. Our revenue attributable to our largest customer in each year or period during the Track Record Period was 5.2%, 12.8%, 9.9% and 8.8%, respectively.

There is no assurance that we would be able to maintain good business relationships with our major customers in the future. Our five largest customers in each year or period during the Track Record Period are not obliged to continue their franchising arrangements with us at a level similar to those in the past or at all. There is no guarantee that they will not reduce their purchases from us in the future. In addition, if any of our major customers ceased to purchase from us or reduced significantly their purchases in the future due to reasons such as loss of market share, reduced competitiveness, trade restrictions, changes in business strategies or production plans, deterioration in their business relationship with us, operational difficulties and deterioration in financial condition, or if we are unable to renew our contracts with our customers or identify new customers promptly or at all, our sales volume may significantly decrease, which may materially and adversely affect our business, results of operations, financial condition and prospects.

We currently do not own the properties on which we carry out our retail store operations, and we are exposed to the risks associated with the commercial real estate market. In addition, our rights to use our leased properties could be challenged by third parties, resulting in forced relocation of our stores.

All of our self-owned stores are under lease arrangements. As a result of rapid rent increases in China, particularly for prime locations in major cities or as a result of our competition with other businesses for these locations, we may not be able to renew the existing lease arrangements for self-owned stores on commercially acceptable terms or at all. If we fail to renew these arrangements on terms commercially acceptable to us, we may need to incur additional costs in relocating self-owned stores and the alternative locations may be less attractive. These factors could adversely affect our business, results of operations and financial condition.

Furthermore, as substantially all of our lease agreements have fixed lease terms, these lease agreements expose us to the risk of having to make rental payments for fixed periods of time in spite of unprofitable business operation or other unforeseen business suspension that may occur before each lease term expires. For example, such temporary store closures was caused by pandemic control measures adopted in various cities in China in response to the transmitted Omicron strain of COVID-19 cases in 2022. Therefore, the inability and/or the lack of flexibility to terminate these leases early could have an adverse effect on our business, financial condition and results of operations. In case of early termination of leases prior to the expiration date of the lease term, we may have disputes with the lessors in various aspects such as compensation for early termination and rental deposit.

In addition, we also face certain risks with respect to certain properties we lease, for which our lessors have not provided us with relevant ownership certificates or necessary consents from the relevant owners to sublease the properties. As of the Latest Practicable Date, there were 258 properties we leased with defective titles, among which, (i) 51 leased properties with an aggregate GFA of approximately 70,685.1 sq.m. failed to obtain relevant ownership certificates or land use right certificates from the lessors, and 13 leased properties with an aggregate GFA of approximately 10,523.7 sq.m. failed to obtain the relevant authorization documents from the property owners to authorize relevant lessors to lease or sublease relevant properties; (ii) except for those properties in (i), 177 leased properties with an aggregate GFA of approximately 157,472.1 sq.m. were under mortgage; and (iii) the remaining 17 leased properties with an aggregate GFA of approximately 14,143.2 sq.m. existed inconsistencies between actual use and planned use specified in the property ownership certificate. As of the same date, the franchise stores leased 66 properties with the total GFA of approximately 46,926.8 sq.m., among which there were 40 properties with defective titles with an aggregate GFA of approximately 28,727.5 sq.m.

The leased properties that we had not received copies of ownership certificates or any other relevant authorization documents evidencing the rights of lessors to lease the properties may subject us to challenges relating to the title of the leased properties or challenges raised by the relevant regulatory bodies. In the event our rights to use the leased properties are challenged, the lease of the relevant properties could be potentially invalidated and we may need to relocate our operations or renegotiate the lease on terms less favorable to us.

With respect to those leased properties under mortgage, if the mortgager fails to repay obligations to the mortgagee when due and the mortgagee chooses to enforce its relevant mortgage rights, we may not be able to continue to use such leased properties.

With respect to those leased properties used for purposes which differ from specified use in the property ownership certificate, if the landlords of the properties receive any rectification order from relevant competent authorities, we may not be able to continue to use such leased properties.

We may also encounter controversies with our lessors in terms of utilities and lease payment and any other disputes with respect to certain properties we lease, where we may need to incur additional costs in resolving such disputes, complaints or even lawsuits.

Also, we conducted renovation on one of our lease properties which is used as our headquarters office, and since we did not obtain the construction planning permit and construction permit for the decoration and construction for such leased property pursuant to the PRC laws and regulations, we may be subject to (i) an order of rectification or suspension of the usage of the leased property; and (ii) a fine up to RMB1.4 million since we did not obtain the construction planning permit and construction permit for the decoration and construction for one particular collectively owned leased property.

A few lease agreements of our leased properties have not been registered with the relevant PRC government authorities as required by PRC law, which may expose us to potential fines.

Under PRC law, all lease agreements are required to be registered with the local land and real estate administration bureau. As of the Latest Practicable Date, we had not completed lease registration for the 618 leased properties in China, primarily due to the difficulty of procuring our lessors' cooperation required to register such leases. We may be subject to fines if we fail to rectify such non-compliance within the prescribed time frame after receiving notice from the relevant PRC government authorities. The penalty ranges from RMB1,000 to RMB10,000 for each unregistered lease, at the discretion of the relevant authority. In the event that any fine is imposed on us for our failure to register our lease agreements, we may not be able to recover such losses from the lessors. For more details of our lease registration, see "Business — Properties — Our Leased Properties."

We are subject to risks associated with franchise business.

The success of our Group will partly depend on the financial success of and cooperation with our franchisees, which is further subject to factors that are beyond our control, including general economic conditions in China and the world, our limited control on franchise stores' business operations and credit risks. All of these factors may negatively impact our ability to collect payment for goods and sales-based management and consultation service income from our franchisees, resulting in damages towards the goodwill associated with our brands, and adversely impact our business and results of operations.

In particular, during the Track Record Period, according to store management arrangements in relation to franchise stores, we provided store management and operation services, including sale of goods, logistics arrangement, shelf and cash management, store booking and accounting, as well as staff management and training. To ensure effective operation of franchise stores, we also dispatch our employees to conduct routine onsite inspections. See "Business — Self-owned Stores and Franchise Stores — Key Terms of Franchising Arrangement." However, our management therein is subject to inherent limitations and there is no assurance that our franchisees may always strictly perform their obligations pursuant to relevant agreements, including, without limitation, obtaining or renewing requested permits or license on a timely basis or at all, making timely settlement for their share of operation related expenses such as rental expense and staff cost, as well as initial store decoration and opening related expenses, complying with the applicable laws and regulations, or operating the franchise stores in a manner consistent with our required standards. Furthermore, while we take efforts to check and verify financial capacity of our franchisees, there is no assurance that they can always achieve sustainable development, or may not be subject to bankruptcy due to various factors beyond our control, as a result of which, we may not be able to successfully recover trade receivables or collect investment return as we expected, or at all. Moreover, there is no assurance that our franchisees may always agree with our vision with business development, particularly our store development strategy in respect of layout of, and synergy among different stores carrying different retail brands, which may negatively affect our capacity of retaining them or even lead to disputes.

During the ordinary course of business, we may encounter disputes with franchisees in respect of their failure in obtaining required permits and licenses, or default in making payment for fees and expenses in the way set out in relevant agreement. In addition, should we decide to enforce our rights set out in relevant agreements in respect of relevant franchise stores, such as our right to terminate relevant agreements in case of a franchisee's material breach of franchising arrangement, franchises may not agree with us or even bring litigation against us.

In addition, we may encounter disputes with our franchisees in relation to our store management measures, and financial or incentive arrangement with relevant franchisees such as the validity, preconditions and value of such incentives, as well as actual damages caused by any breach. For example, during the Track Record Period, we were involved in the lawsuits brought by one prior franchisee who claims for (i) shareholding of Guangdong Kuaike Electronic and the conversion into certain shares in our Company, or (ii) damages equal to the value of certain shareholding in our Company or Guangdong Kuaike Electronic. See "Business — Legal Proceedings — Disputes regarding the 2016 Letter of Intent."

Any such dispute or litigation may be time- and cost-consuming, and may distract our management attention or resources, or cause damage to our brand image or our capacity to attract or retain franchisees. Furthermore, there is no assurance that the court may agree with our positions entirely, or at all. Should any of these above mentioned factors take place, operation of relevant store may be disrupted, and our business, financial condition and results of operations may be materially and adversely affected.

The expansion of our self-owned stores has required and will continue to require a substantial investment and commitment of resources and is subject to numerous risks and uncertainties.

We set up self-owned stores with a view to enable our customers to immerse themselves in personalized shopping experiences which required substantial investment in equipment and leasehold improvements, information systems, inventory and personnel, often times even prior to generating any sales in these stores. We also have entered into substantial operating lease commitments for store space. A decline in sales or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements and severance costs.

In addition to setting up self-owned stores from our end, we historically acquired equity interest from joint ventures or non-wholly owned subsidiaries to have more wholly owned stores. From October 2022 to October 2023, we converted 175 franchise stores with investment and 282 non-wholly owned stores into wholly owned stores. For more details on the acquisition transactions, please see "History, Reorganization and Corporate Structure — Major Acquisitions, Disposals and Mergers — Acquisitions of Joint Ventures and Non-wholly Owned Subsidiaries" and "Business — Store Network Optimization Initiatives."

The success of our store network expansion depends in part on our ability to manage the financial and operational aspects of our self-owned stores expansion strategy, our ability to properly assess the potential profitability of potential new store locations, our ability to hire and train skilled store operating personnel, especially management personnel, our ability to immerse such personnel in our culture, and our ability to guarantee timely supply of inventory for retail stores. We cannot assure you that we will succeed in all of these areas. In addition, many factors unique to offline retail operations, some of which are beyond our control, pose risks and uncertainties to our store network expansion. These risks and uncertainties include, but are not limited to, macro-economic factors that could have an adverse effect on general retail activity, health epidemics, the overall customer traffic in and around the location of our experience stores, the opening of stores of competitors in the same area or location of our self-owned stores, the opening of a new store of ours in the same city as our existing stores, our failure in identifying appropriate locations for opening up new stores and accurately predicting customer traffic at such new stores, our inability to attract high customer traffic to our self-owned stores, our inability to manage costs associated with store construction and operation, more challenging environments in managing offline retail operations, costs associated with unanticipated fluctuations in the value of retail inventory, and our inability to obtain and renew leases in quality retail locations at a reasonable cost.

If we are unable to open self-owned stores at convenient locations in such cities that have large number of customers of our merchandise sales and offer similar competitive prices at our self-owned stores our ability to retain these customers, and further enlarge our consumer base may be negatively impacted. Meanwhile, if we are unable to generate sufficient sales from these stores, we may fail to recover the advanced costs and investments in connection with such store expansion and our business and profitability may suffer. The substantial management time and resources which any future experience store expansion strategy may require could also result in disruption to our existing business operations, which may affect our net revenue and profitability.

Failure to maintain optimal inventory levels could increase our inventory holding costs or cause us to lose sales, either of which could have a material adverse effect on our business, financial condition and results of operations.

Maintaining optimal inventory levels is critical to the success of our business. As of December 31, 2020, 2021 and 2022 and October 31, 2023, our inventories accounted for approximately 61.1%, 39.8%, 48.5% and 33.3%, respectively, of our total current assets. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, our inventory turnover days were 196 days, 154 days, 175 days and 102 days, respectively. We are exposed to inventory risks as a result of a variety of factors beyond our control, including changing consumption trends and customer preferences and launches of competing merchandise. Moreover, for stocking purposes we generally estimate demand for the merchandise we sell ahead of the actual time of sale. We cannot assure you that we can accurately predict these trends and events and maintain adequate levels of inventory at all times. An unexpected decrease in the market demand for the merchandise we sell could lead to excessive inventory, and we may be forced to offer discounts or conduct promotional activities to dispose of slow-moving inventory, sometimes at prices below cost, which in turn may adversely affect our financial condition and results of operations. On the other hand, inventory under-stock may cause us to lose sales and our results of operations may also be adversely affected.

We may be involved in legal or other proceedings arising out of our operations, including product liability claims, from time to time and may face significant liabilities as a result.

Offering high-quality products is essential to the success of our business. Despite the fact that we have a quality control team that has implemented several tiers of quality control measures, we have historically experienced customers' complaints on product quality issues and cannot assure that our products will not have any quality issues in the future. Any product quality issue may result in claims, lawsuits, fines, penalties and negative publicities, and loss of consumer confidence in our products, which in turn would have adverse effects on our business, reputation, operating results and financial conditions. According to the relevant PRC laws and regulations, customers may choose to sue the retailer and the manufacturer for damages caused by defective product. We may have to pay damages to the customers first before we can seek compensation or indemnification from others. If we are found to be liable for any product liability claim initiated due to injuries caused by problems such as improper assembling of key components in electronic products we sell or lack of adequate user instruction for the products we sell, we could be subject to substantial monetary damages. Even if we successfully defend ourselves against a claim, or successfully make compensation claims against others, we may need to spend a substantial amount of money and time in defending such a claim and in seeking compensation, which could result in significant adverse publicity against us, and could have a material adverse effect on our reputation and the marketability of the product we sell. In addition, we may encounter additional compliance issues in the course of our operations, which may subject us to administrative proceedings and unfavorable results. Furthermore, our reputation could be negatively affected due to any negative publicity of any quality issues with respect to the merchandise we sell. As of the Latest Practicable Date, we had not been subject to penalties or administrative fines in relation to these alleged quality issues in any material respect. See "Business — Quality Control" for details of our quality control measures.

We may be affected by parallel imports of third party brand merchandise.

During the Track Record Period, we were aware of parallel imports of third party brand merchandise for which we are the only or exclusively authorized dealers in China. However, we cannot assure that Independent Third Parties would not sell the products under the brands to the PRC markets, which may cause parallel imports of products which we have no direct control. Furthermore, there is no assurance that any future changes in the PRC laws or the interpretation thereof in relation to the legality of any parallel import arrangement will not have an adverse impact on our operations and profitability. Such incident relating to parallel import may damage our brand image and reputation and may even cause competition of sales to us, which in turn, may affect our business, results of operations and financial condition.

Any negative news release about us, our retail brands or our products, or any disputes with our franchisees, could harm the brand image and reputation of us or our retail brands, which could result in a material and adverse impact on our business and prospects.

Negative publicity involving us, our retail brands or our products such as operating cash outflow and several disputes with our franchisees in relation to our store management measures, and financial or incentive arrangement with relevant franchisees such as the validity, preconditions and value of such incentives, as well as actual damages caused by any breach, may materially and adversely harm the brand image and reputation of us or our retail brands and cause deterioration in the level of market recognition of and trust in the products sold in the stores, thereby resulting in reduced customer visits and potential loss of franchisees as well as sales persons and staff. Such negative publicity may also result in diversion of management's attention, and governmental investigations or other forms of scrutiny. These consequences may have a material and adverse effect on our business, results of operations, financial condition and prospects.

We are exposed to credit risks related to our trade and other receivables.

Our trade and other receivables are subject to inherent counter-party risks in relation to our business operations, where the relevant parties may be default and/or fail to meet their repayment or contractual obligations in part, or at all, due to various factors beyond of control, including without limitation, overall general economic conditions, pandemic, liquidity or credit crisis in the global or Chinese finance sectors. As of December 31, 2020, 2021 and 2022 and October 31, 2023, our trade and other receivables were RMB635.3 million, RMB1,123.5 million, RMB833.1 million and RMB850.0 million, respectively. During the Track Record Period, in line with our business strategy in relation to store network expansion, as well as the store management arrangement, we made advance payment primarily for operational related expenses including rental expense and staff cost of the relevant stores. In determining store selections, we particularly focus on those stores that we consider withholding strategic value for our competitive edges over industry peers in local markets, or strong growth potential taking into account factors like expected development of local resident group and economy. As of December 31, 2020, 2021 and 2022 and October 31, 2023, amounts due from franchisees were RMB91.4 million, RMB190.0 million, RMB60.9 million and RMB24.7 million, respectively. See "Business — Self-owned Stores and Franchise Stores — Financial Support Provided to Franchisees — Advance Payment." As of December 31, 2020 and 2021, amounts due from joint ventures were RMB47.2 million and RMB231.3 million, respectively. As of December 31, 2022, amounts due from joint ventures had been fully settled due to the debt conversion arrangement. See "Financial Information — Discussion of Certain Statements of Financial Position Items — Current Assets and Current Liabilities — Trade and Other Receivables."

In addition, in 2020 and the first half of 2021, we provided unsecured and interest-bearing loans to franchisees which was primarily used as initial capital expenditure for new store openings and refurbishment of existing stores. As of December 31, 2020, 2021 and 2022 and October 31, 2023, loans to franchisees were RMB272.0 million, RMB81.9 million, RMB9.5 million and RMB4.0 million, respectively. See "Business — Self-owned Stores and Franchise Stores — Financial Support Provided to Franchisees — Loans to Franchisees." Our PRC Legal Advisers are of the view that our financial support to relevant parties does not violate applicable rules as provided by Article 146, 153 and 154 of PRC Civil Code (《中華人民共和國民法典》) or Article 13 of the Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the "Judicial Interpretations on Private Lending Cases"), and the possibility for us to be subject to penalty is low based on the interview conducted with the PBOC. According to the Article 21 and 61 of the General Lending Provisions (《貸款通則》), only licensed financial institutions may legally engage in the business of extending loans, and loans between companies that are not financial institutions are prohibited. Although as of the Latest Practicable Date, we did not receive any notice of claim or penalty relating to the loans to relevant parties, we cannot assure you that the PBOC will not impose penalties on us, which may amount to one to five times of the income generated (being interests charged) from loan advancing activities.

During the Track Record Period, we did not recognize any impairment loss for loans to franchisees. In 2021 and 2022 and the ten months ended October 31, 2023, for amounts due from franchisees, we recorded an impairment loss of RMB14.0 million, an impairment loss of RMB7.0 million, and a reversal of impairment loss of RMB3.0 million along with the settlement of the relevant balance, respectively. Such impairment loss represented the expected credit loss assessed by us after considering various factors, including length of store operation, store performance, amount of operating loss and existing market conditions.

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, RMB6.3 million, RMB30.4 million, RMB12.1 million and nil was written off from the amounts due from franchisees, respectively, and nil, RMB17.9 million, RMB21.1 million and nil was written off from loans to franchisees respectively, when there is no reasonable expectation of recovery.

Our senior management regularly reviews the recoverability of overdue balances of trade and other receivables. However, our due diligence and credit risk control measures are subject to inherent risks associated with limited control on relevant parties, the subjective nature of our business judgment on relevant market and overall general economic conditions and consumer preference, as well as other factors beyond our control, including overall general economic conditions, pandemic, liquidity or credit crisis in the global or Chinese finance sectors. Should any relevant counterparty fails to meet their repayment or contractual obligations, our business and economic prospects may be materially and adversely affected.

We are subject to risk of recoverability of deferred tax assets.

As of December 31, 2020, 2021 and 2022 and October 31, 2023, our deferred tax assets were RMB68.2 million, RMB111.8 million, RMB200.7 million and RMB147.4 million, respectively. As deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and tax loss can be utilized, management's judgment is required to assess the probability of future taxable profits.

Future profits generated by existing stores may be offset by investment costs, such as upfront costs incurred in establishing stores and subsidiaries for the management and operation of brands and stores. Any changes in management's judgment as well as the future operating results of the relevant entities would affect the carrying amounts of deferred tax assets to be recognized and the recoverability of deferred tax assets recognized in our consolidated financial statements, and therefore could materially and adversely affect our financial condition and results of operation in future years.

We intend to incur significant costs for a variety of sales and marketing efforts, including mass advertising on social media platforms and promotions to attract more customers. If we are unable to conduct our sales and marketing efforts in a cost-effective and efficient manner, our results of operations and financial conditions may be materially and adversely affected.

As a relatively young company, we have invested, and will continue to invest, a large amount of financial and other resources in promoting our brand awareness and acquiring customers, including expanding our sales teams, engaging with customers on social media platforms and placing advertisements. We acknowledge the growing importance of consumer engagement desired by the younger generation of consumer, and implemented initiatives to deepen consumer engagement experience with the setting-up of official brand accounts managed by us on social media platforms. Our customers can watch our live-streaming videos and interact with us through these platforms. Our marketing and branding activities may not be well received, successful or cost-effective, which may lead to significantly higher marketing expenses in the future.

We may also not be able to continue our existing marketing and branding activities, or successfully identify and utilize the new trends in marketing strategies, channels and approaches that appeal to or fit in the lifestyle of our target customers. We may also fail to adjust our sales and marketing strategies fast enough to stay current with consumers' behavioral changes in using internet and mobile devices. Failure to refine our existing marketing strategies or introduce new effective marketing strategies in a cost-effective manner could negatively impact our business, results of operations and financial condition. In addition, failure to comply with relevant provisions of Advertising Law of the PRC promulgated by the Standing Committee of the National People's Congress, or the SCNPC in 1994 and last amended on April 29, 2021, Regulations on the Supervision and Administration of Cosmetics, or the Supervision Regulations, which was promulgated by the State Council on June 16, 2020 and became effective from January 1, 2021, and other relevant laws and regulations will result in the restriction, inhibition or delay of our ability to sell merchandise. See "Regulatory Overview — Regulations Relating to the Circulation of Commodities" and "Regulations Relating to Product Liability and Consumer Protection."

We are required to adhere to certain national health and safety standards, and in the event that we are unsuccessful at meeting these standards, our business, results of operation and brands' image would be materially and adversely affected.

We are subject to laws and regulations in the PRC governing food safety. Please refer to the section headed "Regulatory Overview — Regulations Relating to the Circulation of Commodities" in this document for more information. In light of recent food quality and safety concerns in the PRC, there may be stringent enforcement of food quality and safety rules and regulations. In the event that the government increases the stringency of such laws, our distribution and quality control costs may increase, and we may be unable to pass these additional cost on to our customers.

We cannot guarantee that our procedures and training will be completely effective in meeting all relevant health and safety requirements and preventing all contamination and pollution. Any failure to meet relevant government requirements or any instance of contamination could occur in our operations or those of our customers or suppliers. This could result in fines, suspension of operations, and in more extreme cases, criminal proceedings against our Company and our management. Any of these failures or occurrences could negatively affect our business and financial performance.

Our business relies on the proper operation of our information technology systems, any malfunction of which for extended periods could materially and adversely affect our business.

Our business relies on the proper functioning of our information technology systems. We use our information technology platform, which integrates POS and WMS systems, to enable us to quickly and efficiently collect and analyze our operational data and information including procurement, sales, inventory, order fulfillment and logistics data and after sales services on a real-time basis. We use our information technology platforms to assist us in budgeting, human resources, inventory control, financial management and retail management. As a result, the contemplated operation of our information technology system is critical for us to monitor the inventory and sales level of the stores and for the stores to place orders with us. We need to constantly upgrade and improve our information technology systems to keep up with the continuous growth of our operations and business. However, our IT systems may not always operate without interruption and may encounter temporary abnormality or become obsolete. As our retail network is highly integrated, any malfunction to a particular part of our information technology system for an extended period of time may result in a breakdown throughout our network and our ability to continue our operations smoothly may be negatively affected, which in turn could adversely affect our results of operations.

It is also important that we constantly review our existing IT systems, identify new business needs, provide IT solutions and upgrade our systems. We may not always be successful in developing, installing, running and migrating to new software or systems as required by our business development. Even if we are successful in this regard, significant capital expenditure may be required, and we may not be able to benefit from these types of investment immediately or at all. All of these may have a material adverse effect on our operations and profitability. We cannot assure you that we will always be able to claim under the business interruption insurance we have obtained or that its proceeds will be sufficient to fully cover our losses.

Our business generates and processes a large amount of data, including personal and business data, and the improper collection, hosting, use or disclosure of data could harm our reputation and have a material adverse effect on our business and prospects.

Our business generates and processes a large quantity of personal data as well as user and user group profiles based on our analysis of personal data. We face risks inherent to handling and protecting a large volume of data, especially user data. In particular, we face a number of challenges relating to data security and privacy, including but not limited to:

- protecting the data in and hosted on our system, including against attacks on our system by outside parties, data leakage or fraudulent behavior or improper use by our employees or business partners;

- addressing concerns, challenges, negative publicity and litigation related to data security and privacy, collection, use and actual or perceived sharing (including sharing among our own businesses, with business partners or regulators), safety, security and other factors that may arise from our existing businesses or new businesses and technology, such as new forms of data (for example, biometric data, location information and other demographic information); and

- complying with applicable laws and regulations relating to the collection, use, storage, transfer, disclosure and security of personal data, including requests from data subjects and compliance requirements in accordance with applicable laws and regulations.

We have adopted internal guidelines to protect personal data of our members, and to ensure our Group's compliance with relevant PRC laws and regulations regarding privacy and personal data protection. Nevertheless, the efforts that we take to protect our members' personal information may not always be sufficient or effective. Any improper handling of our customers' personal information as a result of any misconduct by our employees or any information leakage due to external factors, such as unauthorized access to our customers' database by hackers, could result in civil or regulatory liabilities which may subject us to significant legal, financial and operational consequences.

However, the laws and regulations regarding privacy and data protection in China, as well as other countries, are generally complex and evolving. As such, we will need to devote tremendous efforts to continuously upgrading our data privacy and protection measures, in order to comply with the changing principles and requirements of applicable laws and regulations. Additionally, the integrity of our data privacy and protection measures is also subject to system failure, interruption, inadequacy, security breaches or cyber-attacks. Our failure to comply with the then applicable laws and regulations, or to address any data privacy and protection concerns, such actual or alleged failure, could damage our reputation, deter current and potential customers from using our solutions, and potentially subject us to significant legal, financial and operational consequences.

We are subject to the complex and evolving laws, regulations and governmental policies regarding privacy and data protection. Actual or alleged failure to comply with privacy and data protection laws, regulations and governmental policies could damage our reputation, deter current and potential customers from using our products and services and could subject us to significant legal, financial and operational consequences.

In recent years, privacy and data protection has become an increasing regulatory focus of government authorities across the world. The PRC government has enacted a series of laws, regulations and governmental policies for the protection of cybersecurity and personal data in the past few years. Such laws and regulations on cybersecurity and personal data are constantly evolving and would be subject to varying interpretations or significant changes.

For example, on June 10, 2021, the Standing Committee of the National People's Congress (the "**SCNPC**") promulgated the PRC Data Security Law (中華人民共和國數據安全法) (the "**Data Security Law**"), which took effect in September 2021. The Data Security Law provides for a security review procedure for the data activities that may affect national security. On August 20, 2021, the SCNPC issued the Personal Information Protection Law (《個人信息保護法》) ("**PIPL**"), taking effect from November 1, 2021, which reiterates the circumstances under which a personal information processor could process personal information and the requirements for such circumstances. The PIPL clarifies the scope of application, the definition of personal information and sensitive personal information, the legal basis of personal information processing and the basic requirements of notice and consent.

On November 14, 2021, the CAC published the Administrative Regulations on Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) ("**Draft Internet Data Security Regulations**"), the Draft Internet Data Security Regulations further stipulates that data processors conducting the following activities shall apply for cybersecurity review: (i) merger, reorganization or separation of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests affects or may affect national security; (ii) listing abroad (國外上市) of data processors processing over one million users' personal information; (iii) listing in Hong Kong which affects or may affect national security; and (iv) other data processing activities that affect or may affect national security. The Draft Internet Data Security Regulations also state that data processors processing important data or going public overseas (境外) shall conduct an annual data security assessment by themselves or entrust a data security service institution to do so, and submit the data security assessment report of the previous year to the local branch of CAC before January 31 of each year.

As of the Latest Practicable Date, the Draft Internet Data Security Regulations has not been formally adopted. On December 28, 2021, CAC, jointly with other 12 governmental authorities, promulgated the Measures for Cybersecurity Review (《網絡安全審查辦法》) ("**MCSR**"), taking effect on February 15, 2022, which further restates and expands the applicable scope of the cybersecurity review. Pursuant to the MCSR, critical information infrastructure operators that intend to purchase internet products and services and online platform operators engaging in data processing activities, which affect or may affect national security, must be subject to the cybersecurity review. The MCSR further stipulates that when an online platform operator that possesses personal information of over one million users intends for "foreign" listing (國外上市), it must be subject to the cybersecurity review, while the Draft Internet Data Security Regulations states that, data processors conducting listing in Hong Kong which affects or may affect national security shall apply for cybersecurity review.

However, as advised by our PRC Legal Advisers, the MCSR provides no further explanation or interpretation for "foreign" listing (國外上市), and does not explicitly stipulate that an online platform operator which intends for listing in Hong Kong must be subject to the cybersecurity review. Furthermore, as advised by our PRC Legal Advisers, MCSR does not specify the meaning of "online platform operator". And, as advised by our PRC Legal advisers, the Draft Internet Data Security Regulations provide no further explanation or interpretation for "data processing activities" or any other activities that may affect national security. In addition, considering the application scope of MCSR and the Draft Internet Data Security Regulations remains unclear, it still remains uncertain as to whether the MCSR and the Draft Internet Data Security Regulations will be applicable to our business and the [**REDACTED**].

When conducting our business, we may gain access to certain data of our customers, including mobile phone numbers, nicknames, membership grades, delivery addresses and transaction data through our KKV and THE COLORIST WeChat mini programs. Considering the categories and scope of collected data and our business nature, we understand that, our access to the personal information of our consumers does not constitute "data processing activities" or any other activities that may affect national security under the MCSR and the Draft Internet Data Security Regulations.

As of the Latest Practicable Date, we had not received any investigation, notice, warning, or sanctions from applicable government authorities in relation to national security. However, the laws and regulations regarding privacy and data protection in China are generally complex and evolving, and the operative provisions and anticipated adoption or effective date may be subject to change with substantial uncertainty. We cannot predict the impact of these published or draft regulations, if any, at this stage. If the enacted version of the Draft Internet Data Security Regulations mandate clearance of cybersecurity review and other specific actions to be completed by companies like us for the [**REDACTED**] or our future capital raising activities, we may face uncertainties as to whether such clearance can be timely obtained, or at all. Our failure to comply with the cybersecurity and data privacy requirements in a timely manner, or at all, may subject us to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, and revoking relevant business permits or business licenses, among other sanctions. See "Regulatory Overview – Laws and Regulations Related to Cybersecurity and Data Protection."

Additionally, the integrity of our privacy and data protection measures is also subject to system failure, interruption, inadequacy, security breaches or cyber-attacks. Our failure to comply with the then applicable laws and regulations, or to address any data privacy and protection concerns, such actual or alleged failure, could damage our reputation and services and potentially subject us to significant legal, financial and operational consequences.

Any deficiencies in the Internet infrastructure could impair our ability to sell merchandise over our online sales network, which could cause us to lose customers and harm our operating results.

Our online channel serves mainly as a marketing tool for us to broadcast brand awareness to a wider audience. We intend to expand our online sales channel as part of our future business development strategies. These sales depend on the performance and reliability of the Internet infrastructure in China. The third-party online sales and payment platforms depend on telecommunications carriers and other third-party providers for communications and storage capacity, including bandwidth and server storage. If any third-party online platform providers are unable to enter into and renew agreements with these providers on acceptable terms, or if any of their existing agreements with such providers are terminated as a result of their breach or otherwise, as applicable, our ability to sell merchandise to our end consumers online could be adversely affected. Service interruptions prevent customers from accessing our online sales channels and placing orders, and frequent interruptions could frustrate customers and discourage them from attempting to place orders, which could cause us to lose customers and harm our operating results.

Our sales and results of operations are subject to seasonality.

Our sales and results of operations are subject to seasonality due to various factors, including the timing of additional store openings and the incurrence of associated pre-opening costs and expenses, operational cost for our newly opened stores, any losses associated with our store closures and seasonal fluctuations that may vary depending upon the region where a particular store is, as well as impact from online sales and marketing activities such as Double 11 and Double 12 Shopping Festivals held on an annual basis by e-commerce platforms where big discounts and lots of free gifts and trial samples can be given to end customers. We typically experience higher sales during national holidays in China, such as Labor Day and National Day. Apart from that, our merchandise may also experience higher demand during festive seasons such as Chinese New Year, Christmas and Valentines' day. For this reason, we usually increase our inventory level to satisfy the demand from our customers at the end of a financial year and around those holiday seasons. If we fail to capture the sales opportunities arising from these public holidays, our business, financial condition and results of operation may be adversely affected. This seasonal pattern may result in the fluctuation of our operating results, therefore, comparing our results of operations across different periods of a given year as an indicator of future performance may not be meaningful and should not be relied upon as indicators of our future performance. Furthermore, if our operations are disrupted or affected by unpredictable events during these festive seasons, our business, financial condition and results of operations would be adversely affected.

Our risk management and internal control measures and policies may not afford us full protection against various inherent risks in our business.

We have implemented risk management and internal control measures and policies with respect to our business operations, in particular in relation to the management of our self-owned stores and franchise stores. However, there is no guarantee that our risk management and internal control measures and policies are adequate or effective to fully protect us against the potential risks inherent in our business. In the event that we fail to identify and deal with any potential risks or internal control deficiencies, our business operations and prospects may be materially affected.

Furthermore, the successful implementation of our risk management and internal control measures and policies depends on our employees and our franchisees. There is no assurance that our employees and our franchisees will strictly observe and adhere to such measures and policies. There is also no guarantee that our employees and our franchisees will be able to carry out such measures and policies without human errors or mistakes. In addition, as our business expands, we may have to adopt and modify our risk management and internal control measures and policies in a timely manner in response to our business growth. Failure to do so may result in material and adverse effect on our business and results of operations.

We are exposed to risk of cannibalisation between our existing retail stores and additional retail stores which may negatively affect the performance of our existing retail stores.

We position our retail brands to effectively capture market demands from different target consumer demographic groups, while the development plan of each store is determined based on additional factors that may vary at different geographic regions, such as general economic condition, average disposal income, distinctive local trend or preference, as well as competition. In developing our store network, we intend to, where appropriate, open new retail stores in and around areas of existing retail stores to leverage operational efficiencies and effectively serve our customers. Our existing retail stores and additional retail stores may engage in market cannibalisation among themselves. The capacities and growth in some of our target location and demands from our target customers for our merchandise may be limited and may not be able to support our expansion plan. There could be overlapping coverage and unexpected competition between our existing retail stores and additional retail stores due to the over-expansion and cannibalisation effect. As a result, our new retail stores may not perform as anticipated and may have adverse effect on the overall performances of our retail stores and our profitability. There is no assurance that our measures to mitigate potential cannibalization among different stores or retail brands can always be successful, the occurrence of, which could, in turn, adversely affect our business, financial condition or results of operations.

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

Before delivery of merchandise to our self-owned stores and franchise stores, we temporarily 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 merchandise we sell or our warehouses, our ability to supply merchandise to the stores, third-party retailers and distributors on time could be adversely affected, causing our market reputation, financial condition, results or operations or business to be materially and adversely affected. The occurrence of any of these incidents could also require us to make significant unanticipated capital expenditures and delay our delivery of merchandise. Lost sales or increased costs that we may incur due to such disruption of operations and delay in delivery may not be recoverable under our existing insurance policies, and prolonged business disruptions could result in a loss of customers. If any one or more of the above risks were to materialize, our financial condition and results of operations may be adversely affected.

Our business operations may be affected by risks related to logistics support provided by Independent Third Party logistics service providers.

We engage independent logistics service providers to deliver the merchandise we sell directly from our warehouses to the stores. As of October 31, 2023, we engaged 11 logistics service providers, including eight in China and three in Indonesia. Disputes with or a termination in our contractual relationships with one or more of our logistics service providers or courier companies could result in delayed delivery of merchandise, increased costs or customer dissatisfaction. There can be no assurance that we can continue or extend relationships with our current logistics service providers or courier companies on terms acceptable to us, or that we will be able to establish relationships with new logistics service providers or courier companies to ensure accurate, timely and cost-efficient delivery services. If we are unable to maintain or develop good relationships with logistics service providers or courier companies, it may inhibit our ability to offer merchandise in sufficient quantities, on a timely basis, or at prices acceptable to our end consumers.

We cannot guarantee that no interruptions would occur which would materially and adversely affect our business, prospects or results of operations. In particular, such logistics services could be suspended and thereby interrupt the delivery of the merchandise we sell if unforeseen events occur which are beyond our control, such as poor handling of and damage to the merchandise, transportation bottlenecks and/or labor strikes.

As we do not have any direct control over these logistics service providers or courier companies, we cannot guarantee their quality of services. If there is any delay in delivery, damage to merchandise or any other issue, we may lose customers and sales and our brand image may be tarnished. In addition, our suppliers sometimes deliver merchandise to us by land transportation through independent logistics companies. Delays in delivery due to transportation shortages, work stoppages, infrastructure congestion or other factors could adversely impact our ability to timely deliver the merchandise we sell to the stores.

Our insurance policies may not provide adequate coverage for all claims associated with our business operations.

As of the Latest Practicable Date, we have obtained insurance policies that we believe are customary for businesses of our similar size and type, and in line with the standard commercial practice in China. For details on our insurance policies, see "Business — Insurance." However, there are types of losses we may incur that cannot be insured or claimed against, such as loss of reputation. If we were held liable for uninsured losses or amounts and claims for insured losses exceeding the limits of our insurance coverage, our businesses and results of operation may be materially and adversely affected.

We may require additional funding to finance our operations, which may not be available on terms acceptable to us or at all, and if we are able to raise funds, the value of your [REDACTED] in us may be negatively impacted.

We currently fund our operations principally by proceeds from sale of merchandise. To finance our ongoing operations, existing and future capital expenditure requirements, acquisition and investment plans and other funding requirements, we may need to obtain adequate financing from external sources to supplement our internal sources of liquidity in the future. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for capital raising and debt financing activities; and
- economic, political and other conditions in China and elsewhere.

Furthermore, if we raise additional funds through equity or equity-linked financings, your equity interest in our Company may be diluted. Alternatively, if we raise additional funds by incurring debt obligations, we may be subject to various covenants under the relevant debt instruments that may restrict our ability to pay dividends or obtain additional financing. Servicing such debt obligations could also be burdensome to our operations. If we fail to service such debt obligations or are unable to comply with any of these covenants, we could be in default under such debt obligations and our liquidity and financial condition could be materially and adversely affected.

Our success depends on our ability to retain our senior management team and to recruit, train and retain qualified personnel.

The talent, experience and leadership of our senior management team are critical to the success of our business. Members of our senior management team have substantial experience and expertise in our business and have made significant contributions to our growth and success. The unexpected loss of services of one or more of these individuals could also have a material adverse effect on us.

Our continued growth depends in part on our ability to recruit and retain suitable staff. As we expand our retail network, we will need to hire experienced staff who are knowledgeable of the local market and the retail industry. We have faced increasing competition for management and skilled personnel with significant knowledge and experience in the retail sector in China. In addition, we have seen an increasing trend in labor costs in China in recent years, which has had a direct impact on our staff costs. We may need to offer better compensation and other benefits in order to attract and retain key personnel in the future and that may materially affect our costs and profitability. We cannot assure you that we will have the resources to fully satisfy our staffing needs as we continue to grow our business in the future or that our operating expenses will not significantly increase. Competition for talent in some areas of the Chinese retail industry is intense and qualified individuals can be difficult to recruit. Consequently, we may not be able to easily or quickly replace lost personnel and we may incur additional expenses to recruit, train and retain new hires. Significant increases in employee turnover rates, which is generally high in the Chinese retail industry, or significant increases in labor costs, due to competition for talents or changes in labor and healthcare laws, could have a material adverse effect on our results of operations and financial condition.

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 including, but not limited to, business license, food operation license, settlement license, commercial franchising filing and fire safety inspection. These approvals, licenses, permits and filings are granted upon satisfactory compliance with the applicable laws and regulations.

If we fail to obtain the required approvals, licenses, permits and filings, we may be subject to fines and confiscation of the income derived from the related stores. 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.

In the past, we engaged in payment settlement, where customer payments were received and recorded through the KPOS system we provided to each retail store, and were directed into our own bank accounts. On a regular basis, we further distributed the portion entitled to relevant stores after deducting the portion entitled to us, without obtaining payment license. In 2020 and the first eight months of 2021, substantially all of our franchisees were involved in such historical payment settlement arrangement. We have subsequently terminated the historical payment settlement arrangement since September 2021 and engaged a third-party licensed financial institution to settle payments. As of October 31, 2023, all of the stores under our retail brands adopted the third-party licensed financial institution to settle payments. Furthermore, going forward, all the newly opened retail stores will adopt the third-party licensed financial institution to settlement payments, the historical unlicensed payment settlement would not reoccur across our store network.

According to relevant PRC regulations, operation of payment business without permit by the relevant authority in China may give rise to the risk of being required to terminate such practice though there are no clear administrative penalty rules with respect to such practice. See "Business — Network Management and Operation — Cash Management."

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.

Failure to obtain fire safety inspection permit may affect our ability to conduct or expand our business.

PRC laws and regulations provide various requirements regarding fire safety in China. Detailed measures and requirements vary among various regions and are still evolving. As of the Latest Practicable Date, 4.9% of our self-owned stores had not completed the fire safety filings required for obtaining the fire safety inspection permit. As of the same date, 14 franchise stores had not completed the fire safety filings. We cannot assure you that we will be able to complete such filings or to timely respond to changes in the public security or fire safety standards issued by the governmental authorities from time to time. In light of our failure to timely complete the fire safety filings of these self-owned stores, we may be subject to administrative fine up to RMB9.9 million. Even if the premises have completed the fire safety filings, they may be randomly inspected by the relevant governmental authorities and if they fail to pass the random inspections after the fire safety filings, the premises may be closed down, which could materially and adversely affect our business. As of the Latest Practicable Date, we had never been subject to any material administrative penalty or public notice of violations due to any fire safety issues with respect to these stores.

The unavailability of any favourable regulatory treatment, such as government grants, may adversely affect our business, financial condition and results of operations.

We enjoy certain favourable regulatory treatments, such as government grants offered by relevant governmental authorities. In 2020, 2021 and 2022 and the ten months ended October 31, 2022 and 2023, the total amount of government grants we received was approximately RMB1.7 million, RMB1.7 million, RMB39.4 million, RMB37.9 million and RMB27.3 million, respectively. See "Financial Information — Description of Select Consolidated Statements of Comprehensive Income Line Items — Other Income."

It is in the local government authorities' discretion, subject to relevant PRC laws, regulations and policies, to decide whether and when to provide government grants to us. We cannot assure you that we will be able to receive government grants in the future. Furthermore, we face uncertainty relating to the availability of government grants due to the changes in the PRC laws, regulations and policies. If we are unable to obtain or maintain government grants or any other favourable treatments in the future, the reduction in the amount of government grants received may impact our Group's results of operations and cash flows, and we may experience decreases in profitability, and our business, financial condition and results of operations could be affected.

Rising labor costs and enforcement of stricter labor laws and regulations in China may adversely affect our business and profitability.

The operation of our retail stores are labor-intensive. Any failure to retain stable and dedicated labor by us may lead to disruption to our business operations. We have observed an overall tightening and increasing competitive labor market. Our labor costs increased and will continue to increase primarily due to increases in salary, social benefits and employee headcount. In 2020, 2021 and 2022 and the ten months ended October 31, 2022 and 2023, staff costs were RMB184.9 million, RMB460.0 million, RMB518.9 million, RMB422.5 million and RMB556.7 million, respectively. China's overall economy and the average wage in China have increased in recent years and are expected to continue to grow. The average wage level for our employees has also increased in recent years. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to pass on these increased labor costs to our customers effectively, our profitability and results of operations may be materially and adversely affected.

In addition, we have been subject to stricter regulatory requirements in terms of entering into labor contracts with our employees and paying various statutory employee benefits, including social security funds, pension schemes, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. Pursuant to the PRC Labor Contract Law and its implementation rules, employers are subject to stricter requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employee's probation and unilaterally terminating labor contracts. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the PRC Labor Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations.

Failure to make social insurance and housing provident fund contributions for some of our employees timely as required by PRC laws and regulations may subject us to late payments and fines imposed by relevant governmental authorities.

Companies (including its subsidiaries) operating in China are required to register with local social insurance agencies and register with applicable housing provident fund management centers and open a social insurance account and a housing provident fund account under such Companies' own names, and to make social insurance and housing provident funds for their employees. During the Track Record Period and up to the Latest Practicable Date, some of our PRC subsidiaries did not open social insurance account or housing provident fund account for some employees, or did not make 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. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, we made provisions of RMB7.9 million, RMB29.9 million, RMB12.7 million and RMB5.7 million for the shortfall of social insurance and housing provident fund contribution, respectively.

During the Track Record Period and up to the Latest Practicable Date, some of our PRC subsidiaries entrusted third parties to pay for the social insurance and housing provident fund for the PRC subsidiaries' employees, on behalf of the PRC subsidiaries, based on a lower salary level than the actual salary level of employees. See "Business — Human Resources — Social Insurance and Housing Provident Funds."

Our PRC Legal Advisers advised us that, pursuant to relevant PRC laws and regulations, where the PRC subsidiaries fail to register with social insurance agencies and housing provident fund management centers and open accounts, such PRC subsidiaries may be imposed a fine of not less than one time but not more than three times the amount of social insurance premiums payable for failing to open a social insurance account within prescribed time, and may be imposed a fine of not less than RMB10,000 but not more than RMB50,000 for failing to open a housing provident fund account within prescribed time, respectively. Pursuant to relevant PRC laws and regulations, we may be ordered by the relevant PRC authorities to pay the outstanding social insurance contributions within a prescribed time limit, and 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, and if we fail to comply when ordered, the relevant authorities may impose a maximum fine or penalty equivalent to three times the outstanding amounts. With respect to housing provident funds, the relevant authorities may order us to pay the outstanding amounts within the prescribed time period, and they may apply to a competent court for enforcement of the outstanding amounts if we fail to do so.

RISKS RELATING TO DOING BUSINESS IN THE PRC

China's economic, political and social conditions, as well as regulatory policies, significantly affect the overall economic growth of China, which could reduce the demand for our merchandise, and materially and adversely affect our competitive position.

Our business operation and all of our assets are located in the PRC. Accordingly, our financial condition and results of operations are subject to the economic, political and legal developments in China. China's economy has experienced significant growth in the past few decades. The growth of China's economy has been uneven across different regions and economic sectors. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall economy in China, but may negatively affect us. For example, our business, financial condition and results of operations may be adversely affected by the following factors:

- an economic downturn in China or any regional market in China;
- inaccurate assessment of the economic conditions of the markets in which we operate;
- economic policies and initiatives undertaken by the PRC government;
- changes to prevailing market interest rates; and
- a higher rate of bankruptcy.

Moreover, concerns over capital market volatility, issues of liquidity, inflation, geopolitical issues, the availability and cost of credit and concerns about the rate of unemployment have resulted in adverse market conditions in China, which may materially and adversely affect our business, financial condition and results of operations.

If there is a severe downturn in the Chinese or global economy or a geopolitical tension, our business and financial conditions could be materially and adversely affected.

COVID-19 pandemic had a severe and prolonged negative impact on the Chinese and the global economy. Even before the outbreak of COVID-19 pandemic, the global macroeconomic environment faced numerous challenges. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which have been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. Unrest, terrorist threats, geopolitical tensions, wars and potential wars may increase market volatility across the globe. There have been concerns about the relationship between China and other countries, which may potentially have negative economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

As a holding company, we rely on the distribution by our Chinese subsidiaries for funding.

We are a holding company incorporated in the Cayman Islands, and we operate our business through our operating subsidiaries in China. We rely on the distribution to us by our Chinese subsidiaries for funding, including to pay dividends to our Shareholders and to service any debt we may incur. Chinese laws permit dividends to be paid by our Chinese subsidiaries only out of their distributable profits determined in accordance with the PRC generally accepted accounting principles ("PRC GAAP"), which differ from the accounting principles and standards generally accepted in many other jurisdictions. Chinese laws also require each of our Chinese subsidiaries to maintain a general reserve fund of 10% of its after-tax profits based on PRC GAAP, until the aggregate amount of such fund reaches 50% of its register capital. Additionally, factors such as cash flows, restrictions in debt instruments, withholding tax and other arrangements may restrict our Chinese subsidiaries' ability to pay dividends to us and in turn restrict our ability to pay dividends to our Shareholders. Distributions by our Chinese subsidiaries to us in forms other than dividends may also be subject to government approvals and taxes.

The outbreak of COVID-19 pandemic caused damage to the economy and adversely affected our business, financial condition and results of operations.

Since the end of December 2019, the outbreak of a novel strain of coronavirus named COVID-19 materially and adversely affected the global economy. Since early 2020, pandemic control measures had been implemented to contain the spread of the virus. After the initial outbreak of COVID-19 pandemic, from time to time, some instances of COVID-19 pandemic or its variants infections emerged in various regions in China, including the infections caused by the Omicron variants in 2022. With varying levels of temporary restrictions and other measures reinstated in such regions to contain the infections, our operations in these regions were severely and adversely affected when these restrictive measures were in force, under which our local stores were forced to be closed down temporarily. The pandemic control measures to contain the spread of the virus resulted in prolonged store closures, which adversely affected our marketing activities. The COVID-19 outbreak also resulted in regulatory approval delays. Furthermore, due to closed-loop management as a result of such pandemic control measures, quite a few employees worked remotely and our operation in those regions was interrupted to the extent that onsite services of our employees were not required. The pandemic control measures were implemented from 2020 to 2022 and were lifted on January 8, 2023.

The COVID-19 pandemic from 2020 to 2022 disrupted the operations of our business partners, including Third Party Brand Suppliers, OEM and ODM contractors, as well as logistics service providers, through the effects of business and facilities closures, reduction in operating hours, social, economic, political or labor instability in affected areas, transportation delays, travel restrictions and changes in operating procedures.

The general concerns and uncertainties about the pandemic and the economy and the overall weakening consumer sentiment may have negatively affected our business. Should there be a resurgence of the virus, pandemic control measures may be implemented again to prevent the spread of the virus which may impact our businesses significantly. The potential downturn brought by and the duration of the COVID-19 outbreak may be difficult to assess or predict as the actual effects will depend on many factors beyond our control.

The Chinese tax authorities have strengthened their scrutiny over transfers of equity interests in a PRC resident enterprise by a non-resident enterprise, which may negatively affect the value of your [REDACTED] in our Company.

On February 3, 2015, the PRC State Administration of Taxation issued the Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non- Resident Enterprises (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) ("**Circular 7**"). This regulation repealed certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises (關於加強非居民企業股權轉讓企業所得稅管理的通知) ("**Circular 698**") and certain rules clarifying Circular 698. Circular 698 was issued by the PRC State Administration of Taxation on December 10, 2009. Circular 7 provides comprehensive guidelines relating to, and heightened the Chinese tax authorities' scrutiny on, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise ("**PRC Taxable Assets**"). For example, when a non-resident enterprise transfers equity interests in an overseas holding company that directly or indirectly holds certain PRC Taxable Assets and if the transfer is believed by the Chinese tax authorities to have no reasonable commercial purpose other than to evade enterprise income tax, Circular 7 allows the Chinese tax authorities to reclassify this indirect transfer of PRC Taxable Assets into a direct transfer and impose on the non-resident enterprise a 10% rate of PRC enterprise income tax. Circular 7 exempts this tax, for examples, (i) where a non-resident enterprise derives income from an indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company in the public market, and (ii) where a non-resident enterprise transfers PRC Taxable Assets that it directly holds and an applicable tax treaty or arrangement exempts this transfer from PRC enterprise income tax. It remains unclear whether any exemptions under Circular 7 will be applicable to transfers of our Shares by our Shareholders. If the Chinese tax authorities impose PRC enterprise income taxes on these activities, the value of your [**REDACTED**] in our Shares may be adversely affected.

The filing with the CSRC is required in connection with the future [REDACTED] activities, and we cannot predict whether we will be able to complete such filings.

The PRC government has recently indicated an intent to exert more oversight and control over securities [**REDACTED**] and other capital markets activities that are conducted overseas and foreign investment in China-based companies like us.

On July 6, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council jointly promulgated the Opinions on Strictly Combating Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》) (the "**Opinions on Securities Activities**"). The Opinions on Securities Activities emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies.

Furthermore, on February 17, 2023, the CSRC released Trial Administrative Measures for Overseas Securities Offering and Listing by Domestic Companies (境內企業境外發行證券和上市管理試行辦法) (the "**Oversea Listing Trial Measures**") and five relevant guidelines, which became effective on March 31, 2023. Pursuant to the Overseas Listing Trial Measures, PRC domestic companies which, after the overseas offering and listing, offers subsequent securities in the same overseas market or conducts offering and listing in other overseas markets (the "**Future** [**REDACTED**]"), shall complete the filing procedures and report relevant information to the CSRC. Please refer to the section headed "Regulatory Overview — Laws and Regulations Related to Overseas Listing" in this document for more information.

Based on the foregoing, for the Future [**REDACTED**] after this [**REDACTED**] we are required to comply with the filing procedure of the CSRC. It is uncertain whether we can or how long it will take us to complete filings procedures in connection with the Future [**REDACTED**]. Any failure to complete filings procedures may have a material adverse effect on the Future [**REDACTED**].

We may be deemed as a PRC tax resident under the Enterprise Income Tax Law and be subject to PRC taxation on our worldwide income.

Under the EIT Law, enterprises established under the laws of jurisdiction other than China may be considered as a PRC tax resident provided that their "de facto management body" are located within China. Supplementary rules of the EIT Law interprets "de facto management body" as a body that exercises substantial management or control over the business, personnel, finance and properties of an enterprise. Through a circular promulgated in April 2009, the PRC State Administration of Taxation further clarified the criteria for determining whether an enterprise has a "de facto management body" within China. As most of our management is currently based in China and many may remain in China in the future, we and our non-PRC subsidiaries may be treated as PRC tax residents and a number of unfavorable tax consequences could follow. We may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income and to PRC enterprise income tax reporting obligations. Any income sourced by us from outside China, such as interest on [**REDACTED**] held outside China, would be subject to PRC enterprise income tax at a rate of 25%. While the EIT Law provides that dividend income between "qualified resident enterprises" is exempt from PRC enterprise income tax, it is not clear whether our Company and our non-PRC subsidiaries would be eligible for such exemption were we considered to be PRC tax residents. In addition, if we are treated as PRC tax residents under Chinese laws, capital gains realized from sales of our Shares and dividends we pay to non-PRC resident Shareholders may be treated as income sourced within China. Accordingly, dividends we pay to non-PRC resident Shareholders and transfers of Shares by these Shareholders may be subject to PRC income tax. The tax on this income of non-PRC resident Enterprise Shareholders would be imposed at a rate of 10% (and may be imposed at a rate of 20% in the case of non-PRC resident individual Shareholders), subject to the provisions of any applicable tax treaty. If we are required to withhold PRC income tax on dividends payable to you, or if you are required to pay PRC income tax on the transfer of our Shares, the value of your [**REDACTED**] in our Shares may be materially and adversely affected.

Dividends paid by our PRC subsidiaries to us are subject to PRC withholding taxes.

Under the EIT Law and its implementation rules, a 10% withholding tax is applicable to the profit of a foreign-invested enterprise distributed to its immediate holding company outside China to the extent the distributed profit is sourced from China, (i) if the immediate holding company is neither a PRC resident enterprise nor has any establishment or place of business in China, or (ii) if the immediate holding company has an establishment or place of business in China but the relevant income is not effectively connected with the establishment or place of business. Pursuant to a special arrangement between Hong Kong and China, this rate will be lowered to 5% if a Hong Kong resident enterprise directly owns over 25% of the Chinese company at all times during the 12-month period immediately prior to obtaining a dividend from such company. In addition, according to a tax circular issued by the SAT in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, Chinese tax authorities have the discretion to adjust the tax rate enjoyed by the relevant offshore entity. We cannot assure you that Chinese tax authorities will determine that the 5% tax rate applies to dividends received by our subsidiaries in Hong Kong from our Chinese subsidiaries or that Chinese tax authorities will not levy a higher withholding tax rate on these dividends in the future. In accordance with the Administrative Measures for Convention Treatment for Non-resident Taxpayers (《非居民納税人享受協議待遇管理辦法》) which was promulgated by the SAT and came into effect on January 1, 2020, if non-resident taxpayers consider they are eligible for treatments under the tax treaties through self-assessment, they may, at the time of filing tax returns or making withholding tax filings through withholding agents, enjoy the treatments under the tax treaties, and shall concurrently collect and retain the relevant documents for inspection according to relevant regulations, and accept tax authorities' post-filing administration.

Failure by our Shareholders or beneficial owners who are PRC residents to make required applications and filings pursuant to regulations relating to offshore investment activities by PRC residents may prevent us from distributing dividends and could expose us and our Shareholders who are PRC residents to liability under Chinese laws.

The Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (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) ("**SAFE Circular No. 37**"), which was promulgated by SAFE and became effective on July 14, 2014, requires a PRC individual resident ("**PRC Resident**") to register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle ("**Offshore SPV**") that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. 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 Offshore SPV, including any major change of a PRC Resident shareholder, name or term of operation of the Offshore SPV, or any increase or reduction of the Offshore SPV's registered capital, share transfer or swap, merger or division. According to the Notice of the SAFE on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) released on February 13, 2015 by the SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular No. 37 from June 1, 2015. Failure to comply with the registration procedures of SAFE Circular No. 37 may result in penalties and sanctions, including the imposition of restrictions on the ability of the Offshore SPV's Chinese subsidiary to distribute dividends to its overseas parent.

As of the Latest Practicable Date, to the best knowledge of our Directors, Mr. Wu and Mr. Guo, who are PRC residents, had completed their initial foreign exchange registration in respect of their respective incorporation of MOGR and Starlight as required under SAFE Circular No. 37. However, we may not at all times be fully aware or informed of the identities of all our Shareholders or beneficial owners that are required to make such registrations, and we cannot compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our Shareholders or beneficial owners who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations. Any failure by our PRC Resident Shareholders or beneficial owners to make the registrations or updates with SAFE may subject the relevant PRC Resident shareholders or beneficial owners to penalties, restrict our overseas or cross-border investment activities, limit our Chinese subsidiaries' ability to make distributions or pay dividends, or affect our ownership structure and capital inflow from our offshore subsidiaries. As such, our business, financial condition, results of operations and liquidity as well as our ability to pay dividends or make other distributions to our shareholders may be materially and adversely affected.

Current Chinese regulations on loans provided by, and foreign direct investment by, an offshore holding company to Chinese companies may delay or prevent us from using the [REDACTED] from the [REDACTED] to fund our business operations in China.

Any loans or capital contributions that we, as an offshore entity, make to our Chinese subsidiaries that are foreign-invested enterprises, including with the [**REDACTED**] of the [**REDACTED**], are subject to Chinese laws and regulations. Foreign-invested enterprises must register with SAFE or its local counterpart in order to obtain shareholder loans from the foreign investors. The aggregate amount of these foreign loans must not exceed statutory limits. Furthermore, the foreign-invested enterprises must register with SAFE or its local counterpart for repayment of the foreign loans. In addition, foreign investors must register with SAIC or its local counterpart to make capital contributions to the foreign-invested enterprises and submit the investment information to the competent commerce department through the enterprise registration system and the national enterprise credit information publicity system.

We cannot assure you that we can obtain the required government approvals or registrations on a timely basis, or at all, with respect to loans or capital contributions that we may make to our Chinese subsidiaries. If we fail to obtain the approvals or registrations, our ability to use the [**REDACTED**] from the [**REDACTED**] to fund our operations in China would be negatively affected, which would materially and adversely affect our liquidity and our ability to expand our business.

We are subject to the complex and evolving laws, regulations and governmental policies regarding currency conversion which may limit our ability to utilize our revenues effectively and affect the value of your [REDACTED].

The Renminbi is not currently freely convertible into foreign currencies. We receive substantially all of our revenue in Renminbi. Under our current corporate structure, our Cayman Islands holding company primarily 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, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of the SAFE by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiaries in China may be used to pay dividends to our Company but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. However, the laws, regulations and governmental policies regarding currency conversion are generally complex and evolving, and the access to foreign currencies for current account transactions may be restricted if foreign currencies become scarce. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our Shares. Foreign exchange transactions under our capital account are subject to the relevant foreign exchange regulations and policies, and may need approval from the SAFE or its local branches. These limitations could affect our ability to obtain foreign exchange through equity financing, or to obtain foreign exchange for capital expenditures.

You may encounter difficulty in effecting service of legal process upon us, our Directors and senior management and enforcing foreign judgments against us, our Directors and senior management.

We are an exempted company with limited liability incorporated in the Cayman Islands. Substantially all of our assets are located within China. Most of our Directors and senior management reside in China and substantially all of their assets are within China.

Judgments of courts of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty on that with China. Currently, China does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the United States, the United Kingdom or most other western countries. On July 14, 2006, Hong Kong and China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》), pursuant to which reciprocal recognition and enforcement of the judgment may be possible between these two jurisdictions provided that the judgment is rendered by a final court of these two jurisdictions and the parties has a expressly written choice of court. It may be difficult or impossible for you to enforce judgment between these jurisdictions if you have not agreed on sole jurisdiction with the other party. In addition, Hong Kong has no arrangement for reciprocal enforcement of judgments with the United States and certain other jurisdictions. As a result, you may encounter difficulty in enforcing foreign judgments against us or our directors or senior management.

On January 18, 2019, the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the "**2019 Arrangement**") was signed between the Supreme People's Court of China and Hong Kong. Comparing with the 2006 Arrangement, the 2019 Arrangement seeks to establish a bilateral legal mechanism with greater clarity and certainty for reciprocal recognition and enforcement of judgments between Hong Kong and the PRC in civil and commercial matters under both Hong Kong and PRC laws. The 2019 Arrangement will apply to judgments made by the courts of Hong Kong and the PRC on or after its commencement date, which will be announced by Hong Kong and the PRC after necessary procedures of both places have been completed. The 2006 Arrangement will be superseded upon the effective date of the 2019 Arrangement. However, the 2006 Arrangement will remain applicable to a "choice of court agreement in writing" as defined in the 2006 Arrangement which is entered into before the 2019 Arrangement taking effect.

RISKS RELATING TO THE [REDACTED]

As there has been no prior public market for our Shares, their market price may be volatile and an active [REDACTED] market in our Shares may not develop.

Prior to the [**REDACTED**], there was no public market for our Shares. The [**REDACTED**] of our Shares is the result of negotiations between us and the [**REDACTED**] on behalf of the [**REDACTED**], and the [**REDACTED**] may differ significantly from the market price for our Shares following the [**REDACTED**]. There is no guarantee that an active [**REDACTED**] market for our Shares will develop, or, if it does develop, that it will sustain or that the market price of our Shares will not decline after the [**REDACTED**].

The market price and [REDACTED] volume of our Shares may be volatile, which may result in substantial losses for [REDACTED] in our Shares.

The price and [**REDACTED**] volume of our Shares may fluctuate widely in response to factors beyond our control. The factors that could cause significant market price change include but do not limit to the following:

- changes in our results of operations, earnings and cash flows, and securities analysts' estimates of our financial performance;
- changes in competitive landscapes of our industries, including strategic alliances, acquisitions or joint ventures by us or our competitors;
- changes in general economic conditions affecting us or our industries;
- regulatory developments, and our inability to obtain or renew necessary licenses and permits;
- changes in our senior management;
- fluctuations of the general stock market, particularly fluctuations in stock prices of other companies that operate mainly in China and are listed on the Stock Exchange; and
- material litigation or regulatory investigations affecting us or our senior management.

There will be a time gap of several business days between [REDACTED] and [REDACTED] of our Shares [REDACTED] under the [REDACTED]. The market price of the Shares after [REDACTED] begins could be lower than the [REDACTED].

The [**REDACTED**] of our Shares will be determined on the [**REDACTED**]. However, our Shares will not commence [**REDACTED**] on the Stock Exchange until they are delivered, which is expected to be several Business Days after the [**REDACTED**]. [**REDACTED**] are unlikely to be able to sell or otherwise deal in our Shares before they commence [**REDACTED**]. Accordingly, holders of our Shares are subject to the risk that the price of our Shares after [**REDACTED**] begins could be lower than the [**REDACTED**] as a result of adverse market conditions or other adverse development that may occur between the [**REDACTED**] and the time [**REDACTED**] begins.

Control by our Single Largest Shareholders Group of a substantial percentage of our Company's share capital after the completion of the [REDACTED] may limit your ability to influence the outcome of decisions requiring the approval of Shareholders and the interests of our Single Largest Shareholders Group may not be aligned with those of our other Shareholders.

Upon the completion of the [**REDACTED**], approximately [**REDACTED**]% of our Shares will be held by our Single Largest Shareholders Group, assuming that the [**REDACTED**] is not exercised. After the completion of the [**REDACTED**], our Single Largest Shareholders Group will continue to have significant influence on us on various important corporate actions requiring the approval of Shareholders, such as mergers, disposal of assets, election of Directors, and timing and amount of dividends and other distributions. There may be a conflict between our Single Largest Shareholders Group's interests and your interests. Control by our Single Largest Shareholders Group of a substantial percentage of our Shares may have the effect of delaying, discouraging or preventing a change in control of us, which may deprive you of opportunities to receive premiums for your Shares and may reduce the price of the Shares. If our Single Largest Shareholders Group cause us to pursue strategic objectives that would conflict with your interests, you may also be left in a disadvantaged position.

Future sales or major divestment of our Shares by any of our Single Largest Shareholders Group could adversely affect the prevailing market price of our Shares.

The market price of our Shares may be adversely affected by future sale of a significant number of our Shares in the [**REDACTED**] market after the [**REDACTED**], or the possibility of such sales, by our Single Largest Shareholders Group. The Shares held by our Single Largest Shareholders Group are subject to certain lock-up arrangements; please see the section headed [**REDACTED**] in this document for a detailed description of the restrictions. After the restrictions of the lock-up arrangements expire, our Single Largest Shareholder may dispose of our Shares. Sale of a substantial amount of our Shares following the expiration of such lock-up arrangements could adversely affect the market price of our Shares, which could negatively affect our ability to raise equity capital.

Our future financing may cause dilution of your shareholding or place restrictions on our operations.

In order to raise capital and expand our business, we may consider offering and issuing additional Shares or other securities convertible into or exchangeable for our Shares in the future other than on a pro rata basis to our then existing Shareholders. As a result, the shareholdings of those Shareholders may experience dilution in net asset value per Share. If additional funds are to be raised through debt financing, certain restrictions may be imposed on our operations, which may:

- further limit our ability or discretion to pay dividends;
- increase our risks in adverse economic conditions;
- adversely affect our cash flows; or
- limit our flexibility in business development and strategic plans.

You may experience immediate and substantial dilution in the book value of your [REDACTED] as a result of the [REDACTED].

The [**REDACTED**] of our Shares is higher than our net tangible book value per Share immediately prior to the [**REDACTED**]. Therefore, purchasers of our Shares will experience an immediate dilution in [**REDACTED**] net tangible book value per Share. Our existing Shareholders will, however, receive an increase in [**REDACTED**] net tangible book value per Share with respect to their Shares. In addition, if the [**REDACTED**] exercises the [**REDACTED**], holder of our Shares may experience further dilution.

There is no assurance as to whether and when we will pay dividends. Dividends declared in the past may not be indicative of our dividend policy in the future.

We cannot guarantee when, if or in what form and amount dividends will be paid on our Shares following the [**REDACTED**]. Distribution of dividends must be proposed by our Board and is subject to a number of factors, including the results of operations, cash flows, financial situation and capital expenditure requirements of our Group, distributable profits of our subsidiaries and dividends they pay to us, our future plans and business prospects, market conditions, our Articles of Association, regulatory restrictions and our contractual obligations. As a result, our historical dividend distributions are not indicative of dividends that we may pay in the future. See "Financial Information — Dividend" for details of our dividend policy.

Certain facts, forecasts and other statistics contained in this document are obtained from government sources and may not be accurate or reliable.

In this document, certain facts, forecasts and other statistics concerning China, its economic conditions and the industries are derived from publications of Chinese government agencies. They have not been independently verified by us, the Sole Sponsor, the [**REDACTED**], the [**REDACTED**], any of our or their respective directors, officers or representatives or any other person involved in the [**REDACTED**]. We cannot assure you that those facts, forecasts and statistics are accurate and reliable. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy in other jurisdictions. You should consider carefully that how much weight you should place on those facts, forecasts and statistics.

This document contains forward-looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for periods of time to which such statements relate.

This document contains certain future plans and forward-looking statements about us that are made based on the information currently available to our management. The forward-looking information contained in this document is subject to certain risk and uncertainties. Whether we implement those plans, or whether we can achieve the objective described in this document, will depend on various factors including the market conditions, our business prospects, actions by our competitors and the global financial situations.

You may experience difficulties in enforcing your shareholder rights because we are incorporated in the Cayman Islands, and the Cayman Islands law is different from the laws of Hong Kong and other jurisdictions in terms of minority shareholder's protection.

We are an exempted company incorporated in the Cayman Islands with limited liability. Cayman Islands law differs in some respects from the laws of Hong Kong and other jurisdictions where investors may be located. Our corporate affairs are governed by our Memorandum and Articles of Association, the Cayman Islands Companies Act and the common law of the Cayman Islands. The rights of our Shareholders to take legal actions against us and our Directors, 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 precedents in the Cayman Islands, and from English common law, which is persuasive but does not have binding authority on a court in the Cayman Islands. The rights of our Shareholders and the fiduciary responsibilities of our Directors under the Cayman Islands law may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong, the United States or other jurisdictions where investors may be located. In particular, the Cayman Islands has a less developed body of securities law. As a result, our Shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, Directors or Single Largest Shareholders Group than they would as shareholders of a Hong Kong company, a United States company or companies incorporated in other jurisdictions.

Investors should read the entire [REDACTED] carefully and should not place any reliance on any information contained in press articles or other media in making your [REDACTED] decision.

Prior or subsequent to the publication of this document, there may have been press and media coverage regarding us and the [**REDACTED**], which includes certain information about us that does not appear in, or is different from what is contained in, this document. We have not authorized the disclosure of any such information in the press or media. The financial information, financial projection, valuation and other information about us contained in such unauthorized press or media coverage may not truly reflect what is disclosed in the document or the actual circumstances. We do not accept any responsibility for such unauthorized press and media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information. To the extent that any information appearing in the press and media is inconsistent or conflict with the information contained in this document, we disclaim it. Investors should rely only on the information contained in this document in making [**REDACTED**] decision.

In preparation for the [**REDACTED**], our Company has applied for the following waivers from strict compliance with the relevant provisions of the Listing Rules and exemption from strict compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, our Company must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Our Group's principal business and operations are located, managed and conducted in the PRC through our PRC subsidiaries. None of our executive Directors is ordinarily based in Hong Kong and they will continue to be based in the PRC after [**REDACTED**]. As a result, our Company does not, and for the foreseeable future, will not have a sufficient management presence in Hong Kong as required under Rule 8.12 of the Listing Rules. Further, it would be impractical and commercially unnecessary for our Company to relocate its existing PRC-based executive Directors to Hong Kong or to appoint additional executive Directors who are ordinarily resident in Hong Kong.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has agreed to grant], a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain regular and effective communication with the Stock Exchange, we put in place the following measures:

(i) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules to act as our principal channel of communication with the Stock Exchange. The two authorized representatives of our Company are Mr. Wu and Ms. Ko Mei Ying (高美英) ("**Ms. Ko**"), our executive Director and one of our joint company secretaries, respectively. Each of the two authorized representatives will be the principal channel of communication with the Stock Exchange and can be readily contactable by telephone, facsimile and/or email;

(ii) each of the two authorized representatives will have means to contact all Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the Directors on any matters. Our Company requires that all Directors will provide, if available, their mobile phone numbers, office phone numbers, email addresses and fax numbers to the Stock Exchange;

(iii) each Director who is not ordinarily resident in Hong Kong has confirmed that he or she possesses or can apply for valid travel documents to visit Hong Kong and is able to meet with the Stock Exchange within a reasonable period, when required; and

(iv) we have appointed Somerley Capital Limited as our compliance adviser (the "**Compliance Adviser**") pursuant to Rule 3A.19 of the Listing Rules for the period commencing from the [**REDACTED**] and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the [**REDACTED**]. Our Compliance Adviser will advise our Company on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after [**REDACTED**]. We will ensure that the Compliance Adviser has full access at all times to our two authorized representatives and our Directors and will act as the additional channel of communication with the Stock Exchange.

(v) We have provided the Stock Exchange with the names, mobile phone numbers, office phone numbers and email addresses of at least two of the Compliance Adviser's officers who will act as our Compliance Adviser's contact persons between the Stock Exchange and our Company.

WAIVER IN RELATION TO JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, our Company must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules. Pursuant to Rule 3.28 of the Listing Rules, our Company must appoint as our company secretary 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 company secretary.

The Stock Exchange considers the following academic or professional qualifications to be acceptable:

(i) a member of The Hong Kong Chartered Governance Institute;

(ii) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); and

(iii) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

In assessing "relevant experience", the Stock Exchange will consider the followings of the individual:

(i) length of employment with the issuer and other issuers and the roles he or she played;

(ii) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;

(iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(iv) professional qualifications in other jurisdictions.

Our Company has appointed Ms. He Pingping ("**Ms. He**") and Ms. Ko as our joint company secretaries. Ms. He joined our Company in July 2018 as the manager of legal and compliance department of our Group where she was responsible for the daily legal and compliance operation and matters related to corporate governance. Since June 2021, Ms. He has served as the head of strategic investment department, where she has been primarily responsible for the legal matters in relation to the investment and financing activities of our Group. For more details of Ms. He's biography, please see "Directors and Senior Management – Joint Company Secretaries." Although our Company believes, having regard to Ms. He's past experience in handling administrative, legal and corporate matters, that she has a thorough understanding of our Company and the Board, Ms. He does not possess the requisite qualifications as required by Rule 3.28 of the Listing Rules. Therefore, our Company has appointed Ms. Ko, who is a Hong Kong resident and possesses the qualification and relevant experience as stipulated under Rule 3.28 of the Listing Rules, to be a joint company secretary of our Company. For more details of Ms. Ko's biography, see "Directors and Senior Management – Joint Company Secretaries."

Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Listing Rules and other relevant laws and regulations, our Company has put in place the following arrangements:

(i) Ms. Ko, one of the joint company secretaries of our Company who satisfies the requirements under Rule 3.28 of the Listing Rules, will assist Ms. He so as to enable her to discharge her duties and responsibilities as a joint company secretary of our Company. Given Ms. Ko's relevant experiences, she will closely work with and provide assistance to Ms. He for compliance with the relevant requirements of the Listing Rules as well as other applicable laws and regulations of Hong Kong;

(ii) our Company undertakes to re-apply to the Stock Exchange in the event that Ms. Ko ceases to meet the requirements under Rule 3.28 of the Listing Rules or otherwise ceases to serve as a joint company secretary;

(iii) Ms. He, one of the joint company secretaries of our Company, will be assisted by Ms. Ko, for a period from the [**REDACTED**] to the end of three years after the [**REDACTED**], which should be sufficient for her to acquire the requisite knowledge and experience under Rule 3.28 of the Listing Rules;

(iv) our Company will ensure that Ms. He has access to the relevant trainings and support to enable her to familiarize herself with the Listing Rules and the duties required of a company secretary of a Hong Kong [**REDACTED**] company, and Ms. He has undertaken to attend such trainings;

(v) Ms. Ko will communicate with Ms. He on a regular basis regarding matters in relation to corporate governance, the Listing Rules as well as other applicable laws and regulations of Hong Kong which are relevant to the operations and affairs of our Company. Ms. Ko will work closely with, and provide assistance to Ms. He with a view to discharging her duties and responsibilities as a company secretary, including but not limited to organizing the Board meetings and Shareholders' general meetings; and

(vi) pursuant to Rule 3.29 of the Listing Rules, Ms. He and Ms. Ko will also attend in each financial year no less than 15 hours of relevant professional training courses to familiarize themselves with the requirements of the Listing Rules and other legal and regulatory requirements of Hong Kong. Both Ms. He and Ms. Ko will be advised by the legal advisers of our Company as to Hong Kong law and the compliance advisor of our Company as and when appropriate and required.

Accordingly, our Company has applied for, [and the Stock Exchange has granted], a waiver from strict compliance with the requirements under Rules 8.17 and 3.28 of the Listing Rules, provided that Ms. Ko will act as a joint company secretary and provide assistance to Ms. He. The waiver is valid for an initial period of three years commencing from the [**REDACTED**], and will be revoked immediately if Ms. Ko ceases to provide assistance and guidance to Ms. He. The waiver granted can also be revoked if there are material breaches of the Listing Rules by our Company. Prior to the expiry of the initial three-year period, our Company will re-evaluate the qualifications and experiences of Ms. He. Upon the determination of our Company that no on-going assistance to Ms. He is necessary, our Company will demonstrate to the Stock Exchange that, with the assistance of Ms. Ko over such three-year period, Ms. He has acquired the requisite knowledge and experience as prescribed in Rule 3.28 of the Listing Rules. The Stock Exchange will then re-evaluate whether any further waiver would be necessary.

WAIVER IN RELATION TO RULE 4.04(1) OF THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH SECTION 342(1)(B) IN RELATION TO PARAGRAPH 27 OF PART I AND PARAGRAPH 31 OF PART II OF THE THIRD SCHEDULE TO THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Rule 4.04(1) of the Listing Rules requires the accountants' report contained in this document must include, among others, the consolidated results of our Company and its subsidiaries in respect of each of the three financial years immediately preceding the issue of this document or such shorter period as may be acceptable to the Stock Exchange.

Section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, requires all prospectuses to include the matters specified in Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and sets out the reports specified in Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Pursuant to paragraph 27 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, our Company is required to include in this document a statement as to the gross trading income or sales turnover (as may be appropriate) of our Company during each of the three financial years immediately preceding the issue of this document as well as an explanation of the method used for the computation of such income or turnover and a reasonable breakdown of the more important trading activities.

Pursuant to paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, our Company is required to include in this document a report by our Company's auditor with respect to profits and losses in respect of each of the three financial years immediately preceding the issue of this document and assets and liabilities of our Group at the last date to which our financial statements were prepared.

Pursuant to section 342A(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with the relevant requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interests of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

Where an applicant issues its [**REDACTED**] within two months after the latest year end, Chapter 1.1A under the Guide for New Listing Applicants published by the Stock Exchange has provided the conditions for granting a waiver from strict compliance with Rule 4.04(1) of the Listing Rules as follows:

(1) the applicant must list on the Stock Exchange within three months after the latest year end;

(2) the applicant must obtain a certificate of exemption from the SFC on compliance with the requirements of section 342(1) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;

(3) a profit estimate for the latest financial year (which must comply with Rules 11.17 to 11.19 of the Listing Rules) must be included in the document or the applicant must provide justification why a profit estimate cannot be included in the document; and

(4) there must be a directors' statement in the document that there is no material adverse change to our Company's financial and trading positions or prospect with specific reference to the trading results from the end of the stub period to the latest financial year end.

The accountants' report of our Group for each of the three financial years ended December 31, 2020, 2021 and 2022 and the ten months ended October 31, 2023 has been prepared and has been set out in the Appendix I to this document.

Pursuant to the relevant requirements set forth above, our Company is required to produce three full years of audited consolidated financial statements for the years ended December 31, 2021, 2022 and 2023. Accordingly, we applied to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules, and such waiver [was granted by the Stock Exchange] on the conditions that:

(1) this document will be issued on or before [**REDACTED**] and the [**REDACTED**] shall not be later than three months after the end of our Company's latest financial year (i.e. on or before [**REDACTED**]);

(2) our Company will obtain a certificate of exemption from the SFC on compliance with the relevant Companies (Winding Up and Miscellaneous Provisions) Ordinance requirements;

(3) a profit/(loss) estimate for the financial year ended December 31, 2023 will be included in this document; and

(4) a statement of the Directors that there is no material adverse change to our Company's financial and trading positions or prospects with specific reference to the trading results from October 31, 2023 (being the date of which the latest audited consolidated financial statement of our Group were made up) and up to December 31, 2023, being the latest financial year end of our Company, will be included in this document.

An application has also been made to the SFC[, and the SFC has granted us], a certificate of exemption from strict compliance with the requirements under section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraphs 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and a certificate of exemption [has been granted by the SFC] under section 342A(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance on the conditions that:

(1) the particulars of the exemption are set out in this document; and

(2) this document will be issued on or before [**REDACTED**] and the [**REDACTED**] shall not be later than three months after the end of our Company's latest financial year (i.e. on or before [**REDACTED**]).

The applications to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules and to the SFC for a certificate of exemption from strict compliance with the requirements under section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraphs 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance were made on the grounds, that strict compliance with the above requirements would be unduly burdensome and the exemption would not prejudice the interest of the [**REDACTED**] for the following reasons:

(1) there would not be sufficient time for our Company and our Reporting Accountants to complete the audit work on the full financial information for the year ended December 31, 2023 for inclusion in this document. If the financial information is required to be audited up to December 31, 2023, our Company and our Reporting Accountants would have to undertake a considerable amount of work to prepare, update and finalize the financial information to be included in this document and to update the relevant disclosures in this document to cover such additional period. It would be unduly burdensome for the results for the year ended December 31, 2023 to be finalized and audited in such short period of time. Our Directors consider that the benefits of such work to the existing and prospective shareholders of our Company may not justify the additional work and expenses involved and the delay of the [**REDACTED**] of our Company;

(2) our Directors and the Sole Sponsor herein confirm that after performing all reasonable due diligence work which they consider appropriate, up to the Latest Practicable Date, there has been no material adverse change to the financial and trading positions or prospects of our Group since October 31, 2023 (being the date of which the latest audited consolidated financial statement of our Group were made up) up to December 31, 2023 and there has been no event which would materially affect the information shown in the Accountants' Report as set out in Appendix I to this document, the unaudited [**REDACTED**] financial information as set out in Appendix II to this document, profit estimate as set out in Appendix IA to this document and other parts of this document since October 31, 2023 and up to the Latest Practicable Date; and

(3) our Company shall include in this document (a) the Accountants' Report covering the three years ended December 31, 2020, 2021 and 2022 and the ten months ended October 31, 2023 as set out in Appendix I to this document, (b) a profit estimate for the full financial year ended December 31, 2023 in Appendix IA to this document; and (c) information regarding our Group's recent developments subsequent to the Track Record Period and up to the Latest Practicable Date. As such, our Company and the Sole Sponsor confirm that all material information that is necessary for the Shareholders and the potential [**REDACTED**] to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of our Group has been disclosed in this document.

Our Company will comply with the requirements under Rules 13.49(1) and 13.46(2) of the Listing Rules in respect of the publication of its annual results and its annual report. Our Company currently expects to issue its annual results and its annual report for the financial year ended December 31, 2023 on or before March 31, 2024 and April 30, 2024, respectively. In this regard, our Directors consider that our Shareholders, the [**REDACTED**] as well as [**REDACTED**] of our Company will be kept informed of the financial results of our Group for the financial year ending December 31, 2023.

Furthermore, our Directors confirm that they do not contemplate any material change to the share capital structure of our Company and each of the subsidiaries immediately following the [**REDACTED**].

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Wu Yuening (吳悅寧)	Room 1501, Unit 1, Building 7 Senlinhu Lanxigu, Nancheng District Dongguan City Guangdong Province PRC	Chinese
Mr. Guo Huibo (郭惠波)	Room 1602, Building 7 Second District Galaxy Legend Dongcheng District Dongguan City Guangdong Province PRC	Chinese
Ms. Shu Yanfang (舒豔芳)	Room 1005, Kaigeting, Sainajiayuan 68 Hongfu Road, Nancheng District Dongguan City Guangdong Province PRC	Chinese
Ms. Peng Yao (彭瑤).	Room 1702, Unit 1 Block 46, Dongguan Hengda Garden 666 Dongguan Avenue Nancheng District Dongguan City Guangdong Province PRC	Chinese
Mr. Chen Shixin (陳世欣)	Room 702, Jindun Yuan 2 Building Dongdun Street, Jinping District Shantou City Guangdong Province PRC	Chinese
Non-executive Director		
Mr. Liang Jie (梁捷)	12 Coronation Road West Singapore 269243	Singaporean

Name	Address	Nationality
Independent non-executive Directors		
Mr. Yu Jianfeng (余劍峰).	Room 601, Unit 1 Building No. 136, Huguang Zone One Wangjing Road Chaoyang District, Beijing PRC	Chinese
Ms. Shi Meng (時朦).	Unit 53E, The Sky Town Qiaoxiang Road Nanshan District, Shenzhen Guangdong Province PRC	Chinese
Mr. Ying Kejing (應可靖)	Room 2106 No. 3 Lane 766 Xietu Rd Shanghai PRC	Chinese

For further information about our Directors and senior management, see the section headed "Directors and Senior Management" in this document.

PARTIES INVOLVED IN THE [REDACTED]

the Sole Sponsor, [REDACTED], [REDACTED], [REDACTED], [REDACTED] and [REDACTED]	**Morgan Stanley Asia Limited** 46/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
Legal Advisers to our Company	*As to Hong Kong and U.S. laws* **Paul Hastings** 22/F, Bank of China Tower 1 Garden Road Hong Kong *As to PRC laws* **Haiwen & Partners** 20/F, Fortune Financial Center 5 Dong San Huan Central Road Chaoyang District Beijing PRC *As to PRC laws* **Jingtian & Gongcheng** 34/F, Tower 3 China Central Place 77 Jianguo Road Beijing 100025 PRC *As to Cayman Islands laws* **Maples and Calder (Hong Kong) LLP** 26th Floor, Central Plaza 18 Harbour Road Wanchai Hong Kong *As to PRC laws in respect of the disputes regarding the 2016 Letter of Intent* **Guangdong Guanghe (Dongguan) Law Firm** 16/F, Fengtai Building No.3 Yuanmei East Road Nancheng District Dongguan City Guangdong PRC

	As to Indonesian laws **Ali Budiardjo, Nugroho, Reksodiputro** 24th Floor, Graha CIMB Niaga Jalan Jenderal Sudirman Kav. 58 Jakarta 12190 Indonesia
Legal Advisors to the Sole Sponsor and the [REDACTED]	*As to Hong Kong and U.S. laws* **Clifford Chance** 27/F, Jardine House One Connaught Place Central Hong Kong
	As to PRC laws **Han Kun Law Offices** 9/F, Office Tower C1 Oriental Plaza, 1 East Chang An Avenue Beijing PRC
Auditor and Reporting Accountants	**KPMG** *Certified Public Accountants* 8th Floor Prince's Building 10 Chater Road Central Hong Kong
Industry Consultant	**Frost & Sullivan International Limited** 1706, One Exchange Square 8 Connaught Place Central Hong Kong
Compliance Advisor	**Somerley Capital Limited** 20/F, China Building 29 Queen's Road Central Hong Kong

[REDACTED]

CORPORATE INFORMATION

Registered Office	PO Box 309 Ugland House Grand Cayman, KY1-1104 Cayman Islands
Headquarters in the PRC	35 Yinshan Road Yuanwubian Nancheng street Dongguan City Guangdong Province PRC 136 Zhongkang Road Futian District, Shenzhen Guangdong Province PRC
Principal Place of Business in Hong Kong	5/F, Manulife Place 348 Kwun Tong Road Kowloon Hong Kong
Company's Website	**https://www.kkgroup.cn** *(the information contained on this website does not form part of this document)*
Joint Company Secretaries	**Ms. He Pingping** (何萍萍) 35 Yinshan Road Yuanwubian Nancheng street Dongguan City Guangdong Province PRC **Ms. Ko Mei Ying** (高美英) *ACG, HKACG, CPA* 5/F, Manulife Place 348 Kwun Tong Road Kowloon Hong Kong
Authorized Representatives	**Mr. Wu Yuening** (吳悦寧) Room 1501, Unit 1, Building 7 Senlinhu Lanxigu, Nancheng District Dongguan City Guangdong Province PRC

	Ms. Ko Mei Ying (高美英) *ACG, HKACG, CPA* 5/F, Manulife Place 348 Kwun Tong Road Kowloon Hong Kong
Audit Committee	Mr. Ying Kejing (應可靖) *(chairperson)* Ms. Shi Meng (時朦) Mr. Yu Jianfeng (余劍峰)
Remuneration Committee	Ms. Shi Meng (時朦) *(chairperson)* Mr. Wu Yuening (吳悅寧) Mr. Ying Kejing (應可靖)
Nomination Committee	Mr. Wu Yuening (吳悅寧) *(chairperson)* Ms. Shi Meng (時朦) Mr. Ying Kejing (應可靖)

[**REDACTED**]

Principal Bank	**China Merchants Bank Co., Ltd.** Shenzhen Chegongmiao Sub-Branch Block A, 1/F Tianxiang Building Tianan Chegongmiao Industrial District Futian District Shenzhen PRC

This industry overview section contains information and statistics that are derived from government publications, other publications and the market research report prepared by Frost & Sullivan, which was commissioned by us.

The information extracted from the official government publications has not been independently verified by us, the Sole Sponsor, **[REDACTED]*****,*** **[REDACTED]*****,*** **[REDACTED]*****, the*** **[REDACTED]*****, any of our or their respective directors, officers, employees, agents or representatives and no representation is given as to the accuracy or completeness of such information and statistics. For a discussion of risks relating to our industry, see "Risk Factors — Risks Relating to Our Business and Industry."***

SOURCE OF INDUSTRY INFORMATION

We commissioned Frost & Sullivan to conduct research, provide an analysis of, and to prepare a report on the markets in which we operate. Founded in 1961, Frost & Sullivan is an independent market research and consulting company that provides industry research, market strategies, growth consulting and corporate training services. We incurred a total of USD234,400 in fees and expenses for the preparation of the Frost & Sullivan Report.

When preparing the Frost & Sullivan Report, Frost & Sullivan undertook both primary and secondary research using a variety of resources since there is no official available data of the statistics including market size of the retail market, the lifestyle product retail market, and the offline-driven non-grocery retail market.

Primary research involved discussing the status of the industry with key industry experts and certain leading industry participants across the industry value chain and conducting interviews with relevant parties to obtain objective and factual data and prospective predictions, including but not limited to interviews with leading companies.

Secondary research involved analyzing data from Frost & Sullivan's internal database and various publicly available data sources, including official data from government agencies, annual reports of market players and public announcements such as research reports published by industry associations and independent research reports and data based on Frost & Sullivan's own database.

To further verify the accuracy of the data, Frost & Sullivan validated the data by cross-checking the statements and financial data provided by each expert as well as other relevant data from the secondary resources such as the official websites of the companies. Each of these experts has been serving in the industry for many years, with deep industry understanding. The data and information of the market are arrived at by consolidation and cross-validation of the above research methodologies.

The Frost & Sullivan Report was compiled based on the following assumptions: (i) China's social, economic, and political environment is likely to remain stable in the forecast period; and (ii) key drivers of the related industry are likely to remain stable in the forecast period.

We have extracted certain information from the Frost & Sullivan Report in this section and other sections of this document to provide our potential [**REDACTED**] with a more comprehensive presentation of the industry in which we operate. Our Directors confirm to the best of their knowledge and that after taking reasonable enquiries, that there have been no material adverse changes in the overall market information since the date of the Frost & Sullivan Report that would materially qualify, contradict or have an impact on such information.

OVERVIEW OF THE RETAIL MARKET IN CHINA

China's retail industry experienced a fast growth over the past three decades along with robust economic growth and rising per capita disposable income. According to the National Bureau of Statistics of China, the annual per capita disposable income of residents in China grew from RMB28.2 thousand in 2018 to RMB36.9 thousand in 2022. Positive economic development has been driving the growth of per capita consumption expenditure in China. According to the Frost & Sullivan Report, per capita consumption expenditure in China increased from RMB19.9 thousand in 2018 to RMB24.5 thousand in 2022 and is estimated to further increase to RMB34.1 thousand in 2027. Along with the rapidly increasing per capita consumption expenditure, China's retail market has been growing, and the trend will continue. According to the Frost & Sullivan Report, the size of China's retail market by GMV increased from RMB37.8 trillion in 2018 to RMB44.0 trillion in 2022 with the CAGR of 3.9% and is estimated to reach RMB62.9 trillion in 2027.

Market Size of Retail Market by GMV (China), 2018-2027E

Source: National Bureau of Statistics, Frost & Sullivan

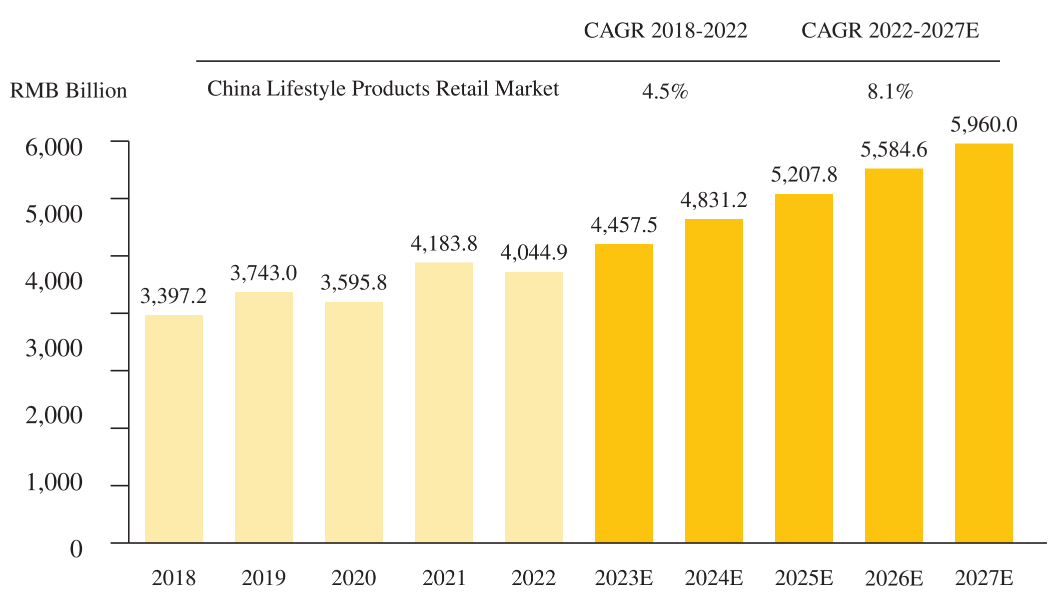
OVERVIEW OF LIFESTYLE PRODUCT RETAIL MARKET IN CHINA

Lifestyle products generally refer to household products which are purchased to enhance an individual's lifestyle or personal expression, mainly including personal care products, small electronics, digital accessories, bags and accessories, snacks, daily consumables, toys, stationery and ancillary textile products. Driven by the middle-class expansion, improved standards of living, individualized consumption preferences and the appetite for trends of the Generation Z, who were born between 1995 and 2009 and Millennials, who were born between 1982 and 1994, the lifestyle product market has become one of the largest retail market segments in China in terms of market size by GMV. According to the Frost & Sullivan Report, in 2022, lifestyle product retail represented approximately 9.2% of the retail market size in China.

Market Size

Driven by rapid economic growth, consumption upgrading, and prevalence of modern consumption culture, the lifestyle product market in China experienced a rapid development over the past two decades. According to the Frost & Sullivan Report, the market size by GMV of China's lifestyle product retail market increased from RMB3,397.2 billion in 2018 to RMB4,044.9 billion in 2022, representing a CAGR of 4.5% during this period, and is estimated to reach RMB5,960.0 billion in 2027, representing an estimated CAGR of 8.1% from 2022 to 2027.

Market Size of Lifestyle Product Retail Market by GMV (China), 2018-2027E



Source: Frost & Sullivan

According to the Frost & Sullivan Report, the lifestyle product retail market can be divided into three market segments by retailer type: (i) offline-driven non-grocery retail, encompassing non-grocery focused retail businesses which derive a majority of GMV from a wide range of lifestyle products, such as personal care products, pop toys and stationeries, through offline channels, emphasizing sensorial in-person shopping experience, customer interactions and immediate availability of products; (ii) offline-driven grocery retail, encompassing grocery-focused retail businesses, such as convenience stores, supermarkets and hypermarkets, which typically have grocery products as the core products, such as fresh vegetables and fruit, frozen food, meat, rice, oil and other daily necessities, and may also offer certain lifestyle products; and (iii) online-driven retail, encompassing the retail businesses which primarily derive their respective GMVs from online channels and leverage the convenience and accessibility of the Internet to reach target customers. Both (i) offline-driven non-grocery retail and (ii) offline-driven grocery retail derive GMV primarily through offline stores. Within lifestyle product retail market, the market size of offline-driven non-grocery retail, offline-driven grocery retail and online-driven retail in terms of GMV in 2022 was RMB268.5 billion, RMB2,473.9 billion and RMB1,302.5 billion, respectively.

Market Trends

In order to provide consumers with quality products and pleasant shopping experiences, lifestyle product retailers have to manage their products, stores and suppliers in a comprehensive manner. Lifestyle product retailers who are able to (i) possess the business acumen to anticipate market trends, (ii) keep abreast of market trends, and (iii) work closely with business partners in various aspects, such as product design, manufacturing, display and distribution, are better-positioned to capture consumer needs. According to the Frost & Sullivan Report, the key trends in the lifestyle product market are as follows:

- ***Younger generation's growing purchasing power and more personalized tastes.*** Millennials and Generation Z, defined as those who were born between 1982 and 2009, have contributed the most to various segments in China's lifestyle product market. They tend to place more emphasis on (i) the design of lifestyle products that can reflect individualized preferences, novelty and aesthetics; (ii) product diversity and brand image; (iii) good value for money; and (iv) shopping experiences that feature pleasant discoveries.

- ***The rise of Generation Z.*** The size of Generation Z was approximately 260 million in 2022. The consumption capacity of Generation Z is strong and on the rise. In 2021, the monthly per capita disposable income of Generation Z exceeded RMB3,500, far exceeding RMB3,074 of the monthly per capita disposable income of residents in China. The consumption expenditure of Generation Z accounted for about 13%-15% of the total household expenditure in China in 2022. As Generation Z, in terms of its population, age and purchasing power, is still in the growth stage, it is expected that the per capita annual expenditure of Generation Z will show a rapid growth trend in the next few years. The diversification of consumption scenarios and modes and the development of Internet and social media have been providing more diversified and convenient consumption opportunities for Generation Z.

- ***Customers' open-mindedness and receptiveness towards new brands.*** Driven by customers' increasing demands for personalized merchandise and service that can reflect their unique personalities, domestic and foreign new brands that demonstrate fast product iteration, innovative product design and creative marketing strategies have been growing rapidly.

- ***Customer-centric offline shopping experiences with online social DNAs.*** Offline retail stores can provide consumers with in-person, comfortable and sometimes surprise-filled shopping experiences. Generation Z and Millennials often check product reviews in online communities or platforms before ordering, and post eye-catching digital contents on the same platforms after purchasing. Consumer behavior and brand image will be continuously influenced by social media.

- ***Digital operations that could timely respond to changing consumer needs.*** To track the ever-changing market conditions and to satisfy consumer preference, sophisticated digital solutions that improve the efficiency of network and management have become the bedrock of the day-to-day operations of lifestyle products retailers. Digital solutions including data analytical tools are typically adopted in front-end store operations, warehousing and logistics for inventories, and supply chain management.

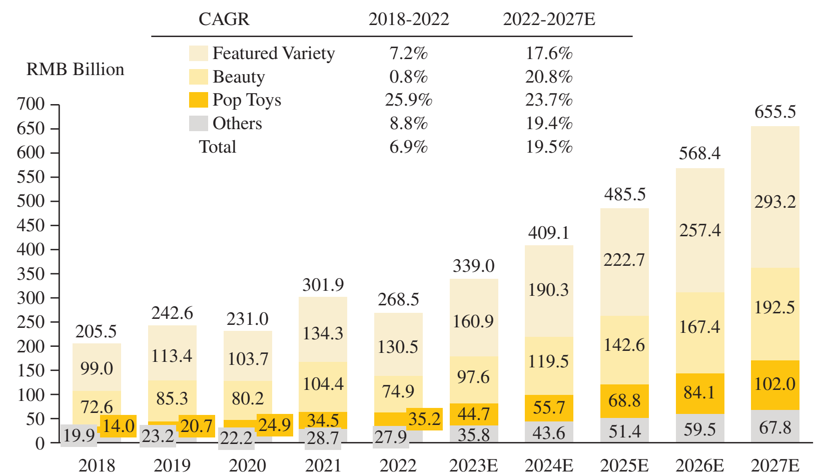
OVERVIEW OF OFFLINE-DRIVEN NON-GROCERY RETAIL MARKET IN CHINA

Overall, the offline-driven non-grocery retail market in China is highly competitive and fragmented. According to the Frost & Sullivan Report, the market size of the offline-driven non-grocery retail by GMV increased from RMB205.5 billion in 2018 to RMB268.5 billion in 2022 with a CAGR of 6.9%, accounting for 6.6% of the overall market size of the lifestyle product retail market in China by GMV in 2022. Though the market was temporarily impacted during 2020 to 2022 due to COVID-19 pandemic similar to what happened to the overall lifestyle product retail market, offline-driven non-grocery retail market in China is expected to resume healthy growth over the next few years. By estimates, the market size by GMV will reach RMB655.5 billion in 2027, highlighting an estimated CAGR of 19.5% from 2022 to 2027.

The offline channels are the dominant sales channels in the offline-driven non-grocery retail market in China as it allows customers to immerse themselves in a sensorial shopping journey through trying and picking different products onsite and getting personalized assistance. Leading offline-driven non-grocery retailers for lifestyle products typically open stores in large shopping centers and department stores in city centers in order to provide better shopping experience to customers. In 2022, sales through offline channels represent 91.5% of the total market size of the offline-driven non-grocery retail in China in terms of GMV and are estimated to remain at approximately 90% during the next few years until 2027.

The offline-driven non-grocery retail market is an independent sub-segment of lifestyle product retail market and focuses on the following factors: (i) trendy and wide portfolio of lifestyle products, as well as a unique selection of products that resonate with customers' lifestyle choices, covering a wide array of items such as beauty, pop toys, stationery, digital accessories and daily consumables; and (ii) satisfying offline shopping experience. With significant emphasis on offline sales, offline-driven non-grocery retail allows customers to interact with products, receive personalized assistance, and immerse themselves in a sensorial shopping journey, recognizing the value of the physical shopping environment in enhanced customer engagement.

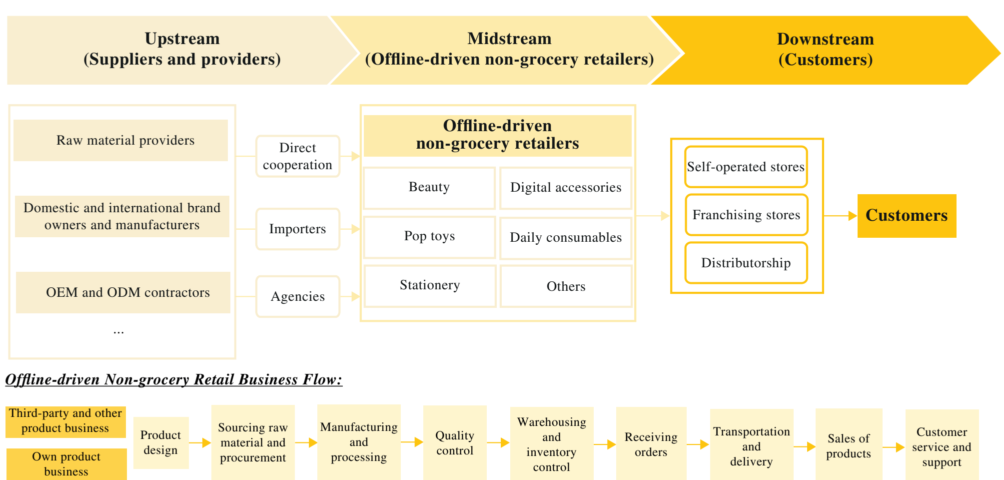
The offline-driven non-grocery retail market primarily includes three segments, namely featured variety, beauty and pop toys. The following chart illustrates the market size of the offline-driven non-grocery retail by segments in China for the periods indicated:



Source: Frost & Sullivan

Value Chain Analysis of the Offline-driven Non-grocery Retail Market in China

The following chart illustrates the key players in the supply chain, the relationships among them and typical business flow in the offline-driven non-grocery retail market:



Source: Frost & Sullivan

The value chain of the offline-driven non-grocery retail market in China consists mainly of three stakeholders, namely upstream suppliers, offline-driven non-grocery retailers for lifestyle products, and customers. The upstream suppliers consist primarily of (i) raw material providers, (ii) domestic and international brand owners and manufacturers, and (iii) OEM and ODM contractors. The upstream suppliers generally provide offline-driven non-grocery retailers for lifestyle products like ourselves with materials and products.

After procurement from the upstream suppliers, offline-driven non-grocery retailers for lifestyle products at the midstream provide various kinds of products to downstream customers, with major roles of supply of goods, storage, transportation and delivery. The midstream offline-driven non-grocery retailers for lifestyle products mainly operate three types of retail models to approach the downstream customers, including (i) self-operated stores which are owned and managed by the offline-driven non-grocery retailers for lifestyle products; (ii) franchising stores which are owned and operated by franchisees who are licensed to use brands and business model to sell and market a service or product of the offline-driven non-grocery retailers for lifestyle products; and (iii) distributorship which is owned by third party retailers, operating under the guidance of the offline-driven non-grocery retailers for lifestyle products. The products provided to the downstream customers include but not limited to cosmetics, pop toys, stationery, snack food, beverage and household products.

Our Group positions itself as a midstream participant along the value chain which mainly involves the provision of retailing services of lifestyle products to downstream customers and the sourcing of goods from upstream suppliers.

Market Drivers and Trends

According to the Frost & Sullivan Report, the key drivers and trends of the offline-driven non-grocery retail in China include:

- ***Pursuit of a personalized lifestyle***. As consumers' living standards and disposable income continue to rise in China, there is more focus on the quality and unique design of lifestyle products. Offline-driven non-grocery retailers for lifestyle products are therefore encouraged to continuously improve on lifestyle product portfolios with unique life philosophy and aesthetic designs so as to meet each customer's way of life.

- ***Product diversification***. Customers, especially Generation Z and Millennials, have more diverse and personalized needs for lifestyle products, caring more than ever before about a product's differentiated functions, innovative elements, and fashionable features. The ever-increasing debuts of innovative products through brand collaboration and product customization demonstrate the growing market trend for a more diverse product portfolio that can effectively address customers' different needs.

- ***Demand for surprise-filled and satisfying shopping experiences.*** The offline channels are the dominant sales channels in the offline-driven non-grocery retail market in China as it allows customers to immerse themselves in a sensorial shopping journey through trying and picking different products onsite and getting personalized assistance. In the era of "rapid consumption," consumers prefer surprise-hunting experiences through sensory participation in uniquely themed shopping arena. Immersed in an aesthetically pleasing and surprising environment, curious customers are excited for an unexpected discovery, which drives them to make more purchases.

- ***Ever-increasing impact of social media and Key Opinion Leader.*** The reviews and evaluations on lifestyle retail brands within their social communities are changing Millennials and Generation Z's shopping preferences. China's Key Opinion Leader ("**KOL**") market has been one of the fastest-growing economic phenomena in recent years. As consumers are growing stickier with the word-of-mouth in their social circles as well as from KOLs, brands are extending their marketing efforts to KOL collaboration to promote products in the loyal fan base of these KOLs.

- ***Retailers' on-going utilization of technology in optimizing operations***. In order to capture customers' evolving demands efficiently, offline-driven non-grocery retailers for lifestyle products are utilizing both software- and hardware-based technologies to closely monitor a variety of functions in store, in the supply chain and in daily transactions with upstream suppliers.

Entry Barriers

According to the Frost & Sullivan Report, the entry barriers of the offline-driven non-grocery retail market in China include:

- ***Exquisite merchandise selection capacity.*** Offline-driven non-grocery retailers for lifestyle products need to make forward-looking and exquisite merchandise selection to grasp the latest market dynamics. In order to effectively manage a large variety of products, offline-driven non-grocery retailers for lifestyle products need to have an in-depth understanding of supply chain integration, merchandise selection, sales and marketing.

- ***Capital management.*** The initial capital investment to enter into the offline-driven non-grocery retail market in China is relatively high. New market entrants must be able to acquire sufficient funds to pay for rent and unique decoration of the retail stores, to pay off the orders of lifestyle products from suppliers, and to cover labor costs. To maintain a well-functioning supply chain and operation of business, offline-driven non-grocery retailers for lifestyle products also need to ensure their business partners' fast capital turnover by adjusting terms of supply, delivery and payment.

- ***Brand power and branding capacity.*** New market entrants must establish brand awareness among customers. The new entrants need to speak to customers' values, deliver quality products and services, maintain consistent customer experiences and commit to customer retention and loyalty. Unique brand positioning attracts target customer groups by conveying certain life concepts or personality, thus building differentiated store images and expanding the consumer base.

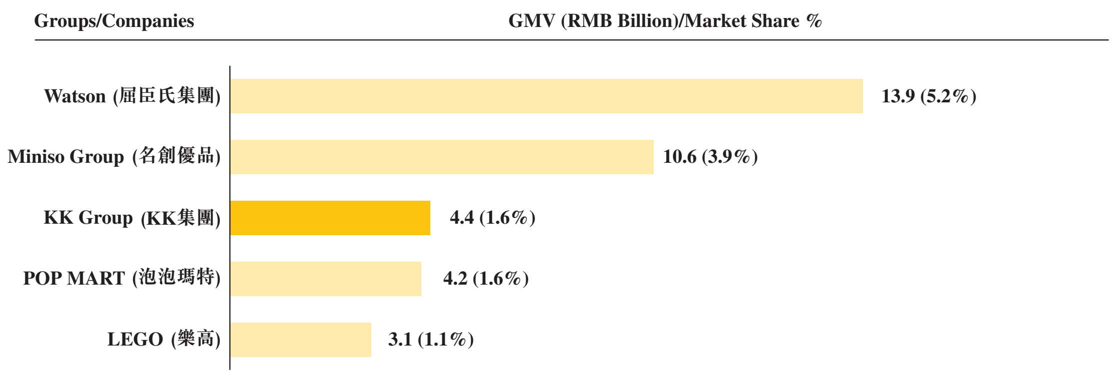
- ***Data-driven marketing strategy.*** To closely monitor real-time consumer perception and demand, offline-driven non-grocery retailers for lifestyle products need to make use of online channels, social media and KOLs as efficient marketing tools to broadcast brand awareness to a wider audience.

- ***Supply chain control.*** In response to consumers' demand for thousands of uniquely designed lifestyle products, new market entrants must be able to have sufficient inventory and logistics control, such as procuring, warehousing, transportation and selling. Leveraging excellent supply chain integration, marketing ability, strong sales channels and high sensitivity for market trends, leading market players are better positioned to secure best-in-class lifestyle products and enjoy stronger bargaining power in the process.

Competitive Landscape in the Offline-driven Non-grocery Retail Market in China

Top five players have a total market size of RMB36.1 billion in terms of GMV, accounting for approximately 13.4% of China's offline-driven non-grocery retail market by GMV in 2022. Our Group was the third largest offline-driven non-grocery retailers for lifestyle products in China in terms of GMV in 2022. According to the Frost & Sullivan Report, leading players are expected to gain more market share and the level of market concentration is expected to increase.

The table below sets forth the top five offline-driven non-grocery retailers for lifestyle products in terms of GMV in China in 2022:



Source: Frost & Sullivan

Inventory management is a major challenge faced by offline-driven non-grocery retailers for lifestyle products in China, because it closely relates to a company's overall cost control. For offline-driven non-grocery retailers for lifestyle products that operate a large number of SKUs, inventory management involving a large number of products across multiple warehouses presents a challenge. Moreover, the product selection made by an offline-driven non-grocery retailer for lifestyle products must meet the constantly changing consumer preferences, and an effective system of consumer data analysis can help a company overcome this challenge.

Competitive Landscape in Featured Variety in the Offline-driven Non-grocery Retail Market

The featured variety segment is characterized by the wide range of products offered by a large number of companies, including, among others, small electronics, accessories, snacks, stationary, home appliances, perfumes and beverages. As a strategy to stand out amongst the numerous competitors and products, a unique brand positioning is key.

The featured variety market is highly competitive. According to the Frost & Sullivan Report, in 2022, the top five players accounted for approximately 14.8% of the featured variety segment in China's offline-driven non-grocery retail market by GMV. The top five players are expected to gain more market shares, and the level of market concentration is expected to increase. Our brands, including KKV and KK Guan, generated RMB3.3 billion by GMV in 2022, ranking second in featured variety among the offline-driven non-grocery retailers for lifestyle products with market share of approximately 2.5%. Overall, KKV and KK Guan demonstrate strong performance in terms of cost-effectiveness, quality, supply chain, brand awareness as well as marketing.

The table below sets forth the details of the top five players in the featured variety segment in the offline-driven non-grocery retail market in China by GMV in 2022:

Rank by GMV	Player	Year of establishment	Products	Positioning	Business model	Number of stores in China as of December 31, 2022	2022 GMV in China	Market share
							RMB billion	%
1. . .	**Miniso**	2011	Including home decor, small electronics, textile, accessories, beauty tools, toys, cosmetics, personal care, snacks, fragrance and perfumes, and stationery and gifts	Fast-growing global value retailer offering design-led lifestyle products	Mainly franchising model, supplemented by self-owned model	3,325	9.9	7.6%
2. . .	**KKV & KK Guan**	2015	Including small electronics, accessories, beauty tools, toys, cosmetics, personal care, snacks, beverages, alcohol, fragrance and perfumes, and stationery	Aesthetic space design, strong category style, surprise-hunting shopping experiences as well as cost-effective quality products	KKV mainly self-owned supplemented by franchising model; KK Guan mainly franchising model, supplemented by self-owned model	430	3.3	2.5%
3. . .	**Muji**	1980	Including household goods, kitchen utensil, fashion, stationery, electronics, home appliances, cosmetics, food, and furniture	Japanese minimalistic and simple design style, and reasonable price	Mainly self-owned model, supplemented by franchising model	349	2.8	2.1%
4. . .	**Sanfu**	1994	Including household goods, cosmetics, fashion, accessories, stationery, and small electronics	Fast fashion brand and moderate price	Mainly self-owned model, supplemented by franchising model	~750	2.4	1.8%
5. . .	**M&G Shop**	2016	Including toys, cosmetics, fashion, accessories, stationery, and small electronics	Simplicity style and affordable price	Mainly franchising model, supplemented by self-owned model	489	0.8	0.6%

Source: Frost & Sullivan

Competitive Landscape in Beauty Segment in the Offline-driven Non-grocery Retail Market

According to the Frost & Sullivan Report, the multinational beauty companies in global beauty industry are still in a strong position. With strong R&D capability, marketing strategies and brand reputation, overseas beauty players are firmly taking the leading position in the global beauty industry. Thanks to customers' high dependence on offline trials as well as multi-choice and price advantages brought by the beauty collection mode, domestic collection stores have developed rapidly in the past two years.

In 2022, the top five players accounted for approximately 19.2% of beauty segment in the offline-driven non-grocery retail market in China in terms of GMV. According to the Frost & Sullivan Report, the top five leading players are expected to gain more market shares and the market concentration is estimated to be higher. THE COLORIST is among the top five player in the beauty segment in the offline-driven non-grocery retail market in China with market share of approximately 1.1% in terms of GMV in 2022. According to the Frost & Sullivan Report, THE COLORIST presents overall good performance in cost-effectiveness, quality, supply chain, fashionable experience as well as marketing.

The table below sets forth the details of the top five players in beauty segment in the offline-driven non-grocery retail market in China by GMV in 2022:

Rank by GMV	Player	Year of establishment	Products	Positioning	Business model	Number of stores in China as of December 31, 2022	2022 GMV in China	Market share
							RMB billion	%
1. . .	**Watson**	1989	Including beauty tools, cosmetics, perfume, personal care, food, drinks, and electronic products	Chain stores of personal care products	Self-owned model only	3,836	10.1	13.4%
2. . .	**Sephora**	1969	Including cosmetics, perfume, and personal care	Open and modern style cosmetics retailer	Self-owned model only	~320	2.4	3.2%
3. . .	**THE COLORIST**	2019	Including cosmetics, personal care, and beauty tools	Large new makeup collection store, quality fast fashion, affordable beauty makeup retailer, incubation platform for global high-quality cosmetics brands	Mainly self-owned model, supplemented by franchising model	207	0.8	1.1%
4. . .	**WOW COLOUR**	2020	Including cosmetics, personal care, and beauty tools	Cutting-edge super makeup collection store, one-stop professional beauty for people and cosmetics retailer	Franchising model only	~180	0.6	0.9%
5. . .	**Mannings**	1972	Including cosmetics, personal care, beauty tools, food, and drinks	High quality, easy to use make-up products	Self-owned model only	~100	0.5	0.7%

Source: Frost & Sullivan

Competitive Landscape in Pop Toy Segment in the Offline-driven Non-grocery Retail Market

According to the Frost & Sullivan Report, pop toy refers to toys that highlight pop content distinctly designed and infused with aesthetic sensibility, or licensed content featured with movie, animation or game characters. The market size of pop toys in China was approximately RMB35.2 billion in 2022 and is expected to increase to RMB102.0 billion in 2027, representing an estimated GMV CAGR of 23.7% between 2022 and 2027, according to the Frost & Sullivan Report. As pop cultures continue to develop and attract more audiences in China, customers are growing and diversifying. According to the Frost & Sullivan Report, the China pop toys market is under low concentration.

In 2022, the top five players accounted for approximately 24.5% of pop toy segment in the offline-driven non-grocery retail market in China in terms of GMV. According to the Frost & Sullivan Report, the top five players are expected to gain more market share and the market concentration is estimated to be higher. We launched our pop toy retail brand "X11" in early 2020. This brand, which is still at an initial stage of growth, has been experiencing a fast growth in recent years and is among the top five pop toys retailers in China with market share of approximately 0.7% in terms of GMV in 2022.

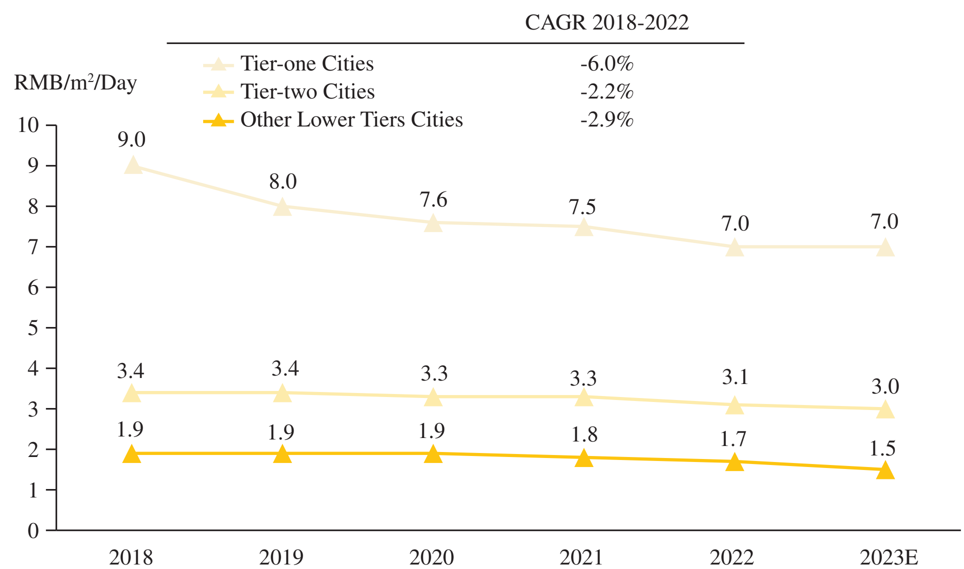
The table below sets forth the details of the top five pop toys players in the offline-driven non-grocery retail market in China by GMV in 2022:

Rank by GMV	Player	Year of establishment	Products	Positioning	Business model	Number of stores in China as of December 31, 2022	2022 GMV in China	Market share
							RMB billion	%
1	**Pop Mart**	2010	Including blind box, art toys, and stationery	Artist mining, IP operation, creative design, fashion play culture promotion, pop toy collection store	Direct sales model only	329	4.2	11.8%
2	**LEGO**	1932	Including adult-oriented assembled toy	Full of educational significance, inspire intelligence and creativity	Mainly direct sales model, supplemented by license model	~380	3.1	8.7%
3	**Top Toy**	2020	Including blind box, art toys, and garage kits	Asian POP Toy Collection Store, Multi brand and IP pop toy collection	Direct sales model only	117	0.6	1.7%
4	**Hot Toys**	2000	Including dolls and art toys	Production house for designing, developing, and manufacturing highly detailed collectible pop toys	Mainly franchise model	~1	0.5	1.4%
5	**X11**	2020	Including blind box, art toys, and garage kits	New Fashion Toy Collection Store	Direct sales model only	50	0.3	0.7%

Source: Frost & Sullivan

AVERAGE RENTAL PRICES IN CHINA

Affected by factors including COVID-19 pandemic, China's rental prices have experienced a slowdown. From 2018 to 2022, the average rental prices in tier-one cities decreased from RMB9.0 m^2/day to RMB7.0 m^2/day, representing a negative CAGR of 6.0%. The average rental price in tier-two cities and other lower tiers cities also steadily decreased to RMB3.1 m^2/day and RMB1.7 m^2/day by 2022. It is expected that average retail rental price of tier-one, tier-two and other lower tiers cities will be RMB7.0 m^2/day, RMB3.0 m^2/day and RMB1.5 m^2/day, respectively.



Note: The rental price above refers to the rental prices of commercial real estate, such as shopping malls.

Source: Frost & Sullivan

This section sets out summaries of certain aspects of the PRC laws and regulations which are relevant to the operation and business of our Company.

REGULATIONS RELATING TO FOREIGN INVESTMENT

On January 1, 2020, the PRC Foreign Investment Law (《中華人民共和國外商投資法》) (the "**Foreign Investment Law**") promulgated by the NPC and the Regulations for Implementation of the PRC Foreign Investment Law (《中華人民共和國外商投資法實施條例》) promulgated by the State Council came into effect and became the principal laws and regulations governing foreign investment in the PRC, replacing three previous major laws regulating foreign investment in the PRC, namely, the Sino-foreign Equity Joint Venture Enterprise Law (《中華人民共和國中外合資經營企業法》), the Sino-foreign Cooperative Joint Venture Enterprise Law (《中華人民共和國中外合作經營企業法》), and the Wholly Foreign-invested Enterprise Law (《中華人民共和國外資企業法》), together with their implementation rules and ancillary regulations.

According to the Foreign Investment Law, "foreign investment" refers to the investment activities conducted directly or indirectly by foreign individuals, enterprises or other entities in the PRC, including the following circumstances: (i) the establishment of foreign-invested enterprises in the PRC by foreign investors solely or jointly with other investors; (ii) a foreign investor's acquisition of shares, equity interests, property portions or other similar rights and interests of enterprises in the PRC; (iii) investment in new projects in the PRC by foreign investors solely or jointly with other investors; and (iv) investments made by foreign investors through means provided in laws, administrative regulations, or other methods prescribed by the State Council.

The Foreign Investment Law and the Implementation Regulations provide that a system of pre-entry national treatment and negative list shall apply to the administration of foreign investment, where "pre-entry national treatment" means that the treatment given to foreign investors and their investments at market entry stage is no less favorable than that given to domestic investors and their investments, and "negative list" means the special administrative measures for foreign investment's entry to specific fields or industries. Foreign investments not in the fields of the negative list will be granted national treatment. Foreign investors shall not invest in the prohibited fields as specified in the negative list, and foreign investors who invest in the restricted fields shall comply with certain special requirements on shareholding and senior management personnel.

On December 30, 2019, the MOFCOM and the State Administration of Market Regulation (the "**SAMR**") jointly promulgated the Measures for Information Reporting on Foreign Investment (《外商投資信息報告辦法》), which became effective on January 1, 2020. Pursuant to the measures, where a foreign investor directly or indirectly carries out investment activities within PRC, the foreign investor or the foreign-invested enterprise shall submit the investment information to the competent commerce department through the enterprise registration system and the national enterprise credit information publicity system.

REGULATIONS RELATING TO COMMERCIAL FRANCHISING

The principal legal provisions governing commercial franchising are set out in the Regulations on the Administration of Commercial Franchising (《商業特許經營管理條例》) (the "**Franchising Regulations**") promulgated by the State Council, which took effect on May 1, 2007, the Administrative Measures on the Filing of the Commercial Franchise (《商業特許經營備案管理辦法》) promulgated by the MOFCOM, which took effect on February 1, 2012, and was amended on December 29, 2023 and the Administrative Measures on the Information Disclosure of Commercial Franchising (《商業特許經營信息披露管理辦法》) promulgated by the MOFCOM, which took effect on April 1, 2012. Commercial franchising refers to the business activities where a franchisor, being an enterprise with registered trademarks, corporate logos, patents, proprietary technology, or other business resources, licenses through contracts its business resources to the franchisees, being other business operators, and the franchisees carry out business operation under a uniform business model and pay franchising fees to the franchisor pursuant to the contracts.

The Franchising Regulations set forth a number of prerequisite requirements for franchisors, including possession of a mature business model, capability to provide business guidance, technical support, and business training to the franchisees, and ownership of at least two directly-operated stores which shall have been in operation for at least one year in China. Those regulations also set forth a number of requirements governing the franchise agreements. For example, franchisors and franchisees are required to enter into franchising agreements containing certain required terms, and the franchise term thereunder shall be no less than three years unless otherwise agreed by the franchisee. The franchisor shall disclose particular information to franchisees in writing at least 30 days prior to the execution of the franchising agreements, file with the MOFCOM or its local counterparts for record within 15 days after executing the first franchise agreement, and apply for alteration within 30 days after occurrence of any changes to the franchisor's business registration, business resources, and the franchisee store network throughout China. Furthermore, the franchisor shall report the execution, revocation, termination, and renewal of the franchise agreements occurring in the previous year to MOFCOM or its local counterparts within the first quarter of each year.

REGULATIONS RELATING TO PRODUCT LIABILITY AND CONSUMER PROTECTION

The PRC Product Quality Law (《中華人民共和國產品質量法》) (the "**Product Quality Law**") promulgated by the SCNPC, which took effect on September 1, 1993, and was amended on December 29, 2018, sets out the requirements to strengthen quality control of product and the measures that sellers shall adopt to maintain the quality of products for sale. Pursuant to the Product Quality Law, sellers shall establish and implement purchase inspection and acceptance system and verify the product qualification certificate and other marks. Sellers shall not mix impurities or imitations into products, or take counterfeit goods as genuine ones, defective products as good ones, or substandard products as standard ones. Violations of the Product Quality Law may result in confiscation of illicit products and imposition of fines. In addition, relevant sellers will be ordered to suspend its operations, with business license revoked and criminal liability incurred in serious cases. According to the Product Quality Law, consumers or victims who suffer injuries or property losses due to product defects may demand compensation from either the producer or the seller. Where the liability lies with the producer, the seller shall, after settling the claim, have the right to recover such claim from the producer, and vice versa.

The Law of PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) (the "**Consumer Protection Law**") promulgated by the SCNPC, which became effective on January 1, 1994, and was amended on October 25, 2013, sets out the obligations of business operators and the rights and interests of the consumers in China. Pursuant to the Consumer Protection Law, business operators shall ensure that their goods or services provided satisfy the requirements for personal or property safety, and provide consumers with authentic and complete information about the quality, function, usage and shelf life of the products or services. Where a business operator has discovered a defect in its goods or services provided which may harm personal or property safety, it shall immediately report to the relevant administrative authorities and notify consumers, and adopt measures such as suspension of selling, alert, recall, decontamination, and destruction. Violations of the Consumer Protection Law may result in warning, the confiscation of illegal income, and the imposition of fines. In addition, relevant business operator will be ordered to suspend its operations, with business license revoked and criminal liability incurred in serious cases. According to the Consumer Protection Law, a consumer whose legal rights and interests are prejudiced during the purchase or use of goods may demand compensation from the seller. Where the liability lies with the producer or another seller that provides the goods to the seller, the seller shall, after settling the claim, have the right to recover such claim from that manufacturer or such other sellers. Consumers or parties who suffer injuries or property losses due to product defects may demand compensation from the producer as well as the seller. Where the liability lies with the producer, the seller shall, after settling the claim, have the right to recover such claim from the producer, and vice versa.

REGULATIONS RELATING TO THE CIRCULATION OF COMMODITIES

Food Sales

According to the PRC Food Safety Law (《中華人民共和國食品安全法》) promulgated by the SCNPC, as effective on June 1, 2009 and most recently amended on April 29, 2021, the PRC government has implemented a licensing system for food manufacturing and food business operations. Food safety management system and inspection and recording system for the purchased food are required for food operators, and recording system for sale is required for food wholesalers additionally.

Pursuant to the Administrative Measures for Food Business Licensing and Filing (《食品經營許可和備案管理辦法》) promulgated by SAMR, as effective on December 1, 2023, a food operation license or filing shall be obtained to engage in certain kinds of food selling within PRC. Food operators exclusively selling pre-packaged foods are required to file a record with the local SAMR, unless these food operators already hold a valid food business license or a food production license for the products in question. Food business operations in violation of the aforementioned regulation may result in confiscation of illegal income and illicit products and the imposition of fines.

Cosmetics Sales

The Cosmetics Supervision and Administration Regulation (《化妝品監督管理條例》) promulgated by the State Council, as effective on January 1, 2021, requires that the cosmetics operators shall establish and implement the inspection and recording system for the purchased goods to verify the market entity registration certificates, cosmetics registration or record-filing situations and the ex-factory inspection conformity certificates of the suppliers, and shall truthfully record, and keep the relevant vouchers. Special cosmetics and ordinary cosmetics may be imported only after they are registered or filed with the drug regulatory department.

Medical Devices Sales

Pursuant to the Regulation on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》) promulgated by the State Council, as effective on April 1, 2000 and amended on February 9, 2021, as effective on June 1, 2021 and the Measures on Supervision and Administration of Business Operations of Medical Devices (《醫療器械經營監督管理辦法》) promulgated by the State Administration for Food and Drug, as effective on October 1, 2014 and recently amended on March 10, 2022, as effective on May 1, 2022, medical devices are administered by categorization according to their risk levels, no license or filing is required for the sale of Class I medical devices, filing is required for the sale of Class II medical devices, and a license is required for the sale of Class III medical devices. Recording system for the medical devices are required for the purchased medical devices operators, and a recording system for sale is required for wholesalers of Class II and Class III medical devices and retailers of Class III medical devices additionally.

Anti-Unfair Competition

The Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) (the "**Anti-Unfair Competition Law**") promulgated by the SCNPC, as effective on December 1, 1993 and amended on April 23, 2019, imposes prohibitions on improper market activities conducted by business operators to undermine their competitors, including forging or counterfeiting trademark, names, and marks of others, infringing business secrets of others, making false or misleading publicity of goods through advertising or other means, bribing, infringing upon the goodwill of competitors or the reputation of their products. Violations of the Anti-Unfair Competition Law may result in fines, the confiscation of illegal proceeds, and, in serious cases, revocation of business license.

Pricing

The Pricing Law of the PRC (《中華人民共和國價格法》) (the "**Pricing Law**") promulgated by the SCNPC, as effective on May 1, 1998, imposes prohibitions on improper pricing activities committed by business operators, including manipulating market prices, dumping goods at price lower than the costs, forcing up prices, using false or misleading prices to deceive consumers or other business operators, and price discrimination. Failure to comply with the Pricing Law may subject business operators to administrative sanctions such as warning, ceasing unlawful activities, compensation, confiscating illegal gains, and fines. The business operators may be ordered to suspend business for rectification, or have their business license revoked if the circumstances are serious.

Advertising

According to the Advertising Law of the PRC (《中華人民共和國廣告法》) promulgated by the SCNPC, as effective on February 1, 1995 and recently amended on April 29, 2021, advertisements shall not contain false or misleading contents, and shall not deceive or mislead consumers. The Cosmetics Supervision and Administration Regulation also sets limitations on the content included in cosmetic advertising, where the cosmetic advertisement may not expressly or impliedly indicate that the product has any medical effect, contain any false or misleading information, or deceive or mislead consumers.

E-Commerce

According to the E-commerce Law of the PRC (《中華人民共和國電子商務法》) promulgated by the SCNPC, which came into force on January 1, 2019, e-commerce operators are referred to as natural persons, legal persons, and other non-legal-person organizations that engaged in the business activities of sale of goods or provision of services through Internet and other information networks, including e-commerce platform operators, business operators using the e-commerce platform, and e-commerce business operators engaging in the sale of goods or provision of services through their self-built website or other network services. E-commerce business operators shall display, prominently and continuously on their homepage, their business license information, administrative licensing information relating to their business operation, or hyperlinks of the aforesaid information. E-commerce business operators shall disclose information of goods or services fully, accurately and promptly, and protect consumers' right to know and right to choose. E-commerce business operators shall not use false transactions, fabricated user review, etc. to conduct false or misleading business promotion, so as to defraud or mislead consumers.

REGULATIONS RELATING TO FIRE PROTECTION

According to the Fire Prevention Law of the PRC (《中華人民共和國消防法》) (the "**Fire Prevention Law**"), promulgated by the SCNPC, as effective on September 1, 1998 and last amended on April 29, 2021, Interim Provisions on the Administration of Fire Protection Design Review and Final Inspection of Construction Projects (《建設工程消防設計審查驗收管理暫行規定》), promulgated by the Ministry of Housing and Urban-rural Development, as effective on June 1, 2020 and was amended on August 21, 2023, a special construction project as provided in the Interim Provisions Regarding Fire Protection shall be subject to fire protection design review before such project was commenced construction and shall be subject to fire protection inspection before such project was put into use. Other construction projects other than a special construction project shall be subject to fire protection inspection recordation, and the competent department of housing and urban-rural development shall conduct a random fire protection inspection thereof. If the project fails to pass the random fire protection inspection, such project shall be ceased to use. The constructor or user entity shall apply to the fire and rescue department of the local people's government at or above county level for a fire safety inspection before a public gathering place is put into use or opens for business. Any construction illegally putting into use or operating a public gathering place without undergoing the fire safety inspection or without satisfying the fire safety requirements upon inspection shall be ordered to stop construction, stop use, stop production, or business operation, and be fined.

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

Copyright

The Copyright Law of the PRC (《中華人民共和國著作權法》) (the "**Copyright Law**") which was promulgated by the SCNPC on September 7, 1990 and amended on November 11, 2020 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.

Trademark

Trademarks are protected by the Trademark Law of the PRC (《中華人民共和國商標法》) which was promulgated on August 23, 1982 and last amended on April 23, 2019 as well as the Implementation Regulation of the PRC Trademark Law (《中華人民共和國商標法實施條例》) which was adopted by the State Council on August 3, 2002 and amended on April 29, 2014. In China, registered trademarks include commodity trademarks, service trademarks, collective marks, and certification marks. The PRC Trademark Office of National Intellectual Property Administration is responsible for the registration and administration of trademarks throughout the PRC, and grants a term of 10 years to registered trademarks. Trademarks are renewable every 10 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. 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 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.

Patent

Patents are protected by the Patent Law of the PRC (《中華人民共和國專利法》) which was promulgated on March 12, 1984 and recently amended on October 17, 2020. The Patent Office under the National Intellectual Property Administration is responsible for receiving, examining, and approving patent applications. A patent is valid for a twenty-year term for an invention and a ten-year term for a utility model or design. Except under certain specific circumstances provided by law, any third-party user must obtain consent or a proper license from the patent owner to use the patent, or else the use will constitute an infringement of the rights of the patent holder.

REGULATIONS RELATING TO FOREIGN EXCHANGE

Under the PRC Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》) promulgated by the State Council on January 29, 1996 and last amended on August 5, 2008 and various regulations issued by the State Administration of Foreign Exchange (the "**SAFE**") and other relevant PRC government authorities, RMB is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan, or investment in securities outside the PRC, unless the prior approval by the SAFE or its local counterparts is obtained.

On July 4, 2014, the SAFE promulgated the Notice of State Administration of Foreign Exchange on Issues Relating to Foreign Exchange Control for Overseas Investment and Financing and Round-tripping by Chinese 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 No. 37**"), which regulates foreign exchange matters in relation to the use of special purpose vehicles by PRC residents or entities to seek offshore investment and financing or conduct round trip investment in China. Under SAFE Circular No. 37, a "special purpose vehicle" refers to an offshore entity established or controlled, directly or indirectly, by PRC residents or entities for the purpose of seeking offshore financing or making offshore investment, using legitimate onshore or offshore assets or interests, and "round trip investment" refers to direct investment in China by PRC residents or entities through special purpose vehicles, namely, establishing foreign-invested enterprises to obtain ownership, control rights, and management rights. SAFE Circular No. 37 provides that, before making a contribution into a special purpose vehicle, PRC residents or entities are required to complete foreign exchange registration with SAFE or its local branch. On February 13, 2015, the SAFE promulgated the Notice of the SAFE on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), effective from June 1, 2015, which further amended SAFE Circular No. 37 by requiring PRC residents or entities to register with qualified banks rather than the SAFE or its local branches in connection with their establishment of an offshore entity established for the purpose of overseas investment or financing.

REGULATIONS RELATING TO TAX

Enterprise Income Tax

The Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得稅法》) and 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**") were promulgated on March 16, 2007 and December 6, 2007, respectively, and were amended on December 29, 2018 and April 23, 2019, respectively. 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 inside China. Under the EIT Laws and relevant implementing regulations, a uniform EIT 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.

Value Added Tax

The Interim Value-Added Tax Regulations of the People's Republic of China (《中華人民共和國增值稅暫行條例》) (the "**VAT Regulations**") was promulgated by the State Council on December 13, 1993 and last amended on November 19, 2017. Under the VAT Regulations, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided with in the PRC.

REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL WELFARE

The Labor Contract Law

According to the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) promulgated on July 5, 1994 and last amended on December 29, 2018, 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. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection. The PRC Labor Contract Law (《中華人民共和國勞動合同法》), which was implemented on January 1, 2008 and amended on December 28, 2012, is primarily aimed at regulating employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. Pursuant to the PRC Labor Contract Law, 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.

Social Insurance and Housing Fund

As required under the Regulation of Insurance for Labor Injury (《工傷保險條例》) implemented on January 1, 2004 and amended on December 20, 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance for Employees of Corporations of the State Council (《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 on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on December 14, 1998, the Unemployment Insurance Measures (《失業保險條例》) promulgated on January 22, 1999, and the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) implemented on July 1, 2011 and amended on December 29, 2018, 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. 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. In accordance with the Regulations on the Management of Housing Funds (《住房公積金管理條例》) which was promulgated by the State Council on April 3, 1999 and last amended 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.

LAWS AND REGULATIONS RELATED TO CYBERSECURITY AND DATA PROTECTION

On November 7, 2016, the SCNPC promulgated the Cybersecurity Law of the PRC (《中華人民共和國網絡安全法》), which became effective on June 1, 2017, requires network operators to perform certain functions related to cybersecurity protection and strengthen the network information management. For instance, under the Cybersecurity Law, network operators of key information infrastructure generally shall, during their operations in the PRC, store the personal information and important data collected and produced within the territory of the PRC. When collecting and using personal information, in accordance with the Cybersecurity Law, network operators shall abide by the "lawful, justifiable and necessary" principles. The network operator shall collect and use personal information by announcing rules for collection and use, expressly notify the purpose, methods and scope of such collection and use, and obtain the consent of the person whose personal information is to be collected. The network operator shall neither collect the personal information unrelated to the services they provide, nor collect or use personal information in violation of the provisions of laws and administrative regulations or the agreements with such persons and shall process the personal information they store in accordance with the provisions of laws and administrative regulations and agreements reached with such persons. Network operator shall not disclose, tamper with, or destroy personal information that it has collected, or disclose such information to others without prior consent of the person whose personal information has been collected, unless such information has been processed to prevent specific person from being identified and such information from being restored. Each individual is entitled to require a network operator to delete his or her personal information if he or she finds that collection and use of such information by such operator violate the laws, administrative regulations, or the agreement by and between such operator and such individual; and is entitled to require any network operator to make corrections if he or she finds errors in such information collected and stored by such operator. Such operator shall take measures to delete the information or correct the error. Any individual or organization may neither acquire personal information by stealing or through other illegal ways, nor illegally sell or provide personal information to others.

On June 10, 2021, the SCNPC issued the Data Security Law, which became effective on September 1, 2021. The Data Security Law protects the rights and interests of individuals and organizations relating to data, encourages the lawful, reasonable and effective use of data, guarantees the orderly and free flow of data in accordance with the law, and promotes the development of the digital economy with data as a key element. Furthermore, the Data Security Law also provides that China shall establish a data classification and grading protection system and data security review system, under which data processing activities that affect or may affect national security shall be reviewed for protection of national security. A decision on security review made in accordance with the law shall be final. Processors of data shall establish a sound data security management system throughout the whole process, organize data security education and training, and take corresponding technical measures and other necessary measures to ensure data security, in accordance with the provisions of laws and regulations. To carry out data processing activities by making use of the Internet or any other information network, the aforesaid obligations for data security protection shall be performed on the basis of the graded protection system for cybersecurity. Processors of data shall clearly specify responsible personnel and management departments for data security and fully implement data security protection responsibilities. Risk monitoring measures shall be strengthened during processing data and remedies shall be immediately adopt where processors discover risks such as data security defects and vulnerabilities. When data security incidents occur, processors shall immediately take solutions, notify the users as required and report the matter to the relevant competent authorities. Any organization or individual collecting data shall adopt lawful and proper methods and shall not steal data or obtain the data through other illegal means. Relevant authorities will establish the measures for the cross-border transfer of import data. If any company violates the Data Security Law to provide important data outside China, such company may be punished by administration sanctions, including penalties, fines, and/or may suspension of relevant business or revocation of the business license. As a processor of data, the Company shall implement the relevant data security management system and protection obligations in the entire process of the business operations and new product development and comply with higher requirements on data security protection from multiple perspectives under the Data Security Law of the PRC and require business partners to abide by the requirements accordingly.

On July 6, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council also jointly issued the Opinions on Strictly Combating Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》), which stressed on improving laws and regulations on data security, cross-border data flow and management of confidential information, speeding up the revisions to regulations on strengthening the confidentiality and document management of securities issuance and listing outside the mainland of the PRC (境外上市) to increase the accountability of entities listed outside the mainland of the PRC to information security, and enhancing standardized management of mechanism and procedure for cross-border data transfer, enhancing the cooperation of cross-border audit supervision.

On 20 August 2021, the SCNPC promulgated the PIPL, which took effect on 1 November 2021. The PIPL further accentuates the importance of processors' obligations and responsibilities for personal information protection and sets out the basic rules for processing personal information and the rules for cross-border transfer of personal information.

On November 14, 2021, the CAC, jointly with the relevant authorities, published the Draft Internet Data Security Regulations. Pursuant to the Draft Internet Data Security Regulations, data processors who carry out the following activities shall apply for a cybersecurity review in accordance with relevant regulations: (i) the merger, reorganization or division of internet platform operators who have gathered a large number of data resources related to national security, economic development and public interest, which affects or may affect national security; (ii) the proposed listing in a foreign country of data processor who processes personal information of over one million people; and (iii) the proposed listing in Hong Kong of data processor which affects or may affect national security; and other data processing activities that affect or may affect national security.

On December 28, 2021, CAC, jointly with the other 12 governmental authorities, promulgated the MCSR, taking effect in February 25, 2022, which stipulates that an online platform operator which has collected personal information of over one million users and intends to be listed in a foreign country must be subject to the cybersecurity review.

Pursuant to the MCSR, critical information infrastructure operators that intend to purchase internet products and services and online platform operators engaging in data processing activities, which affect or may affect national security, must be subject to the cybersecurity review. The MCSR further stipulates that when an online platform operator that possesses personal information of over one million users intends for "foreign" listing, it must be subject to the cybersecurity review, while the Draft Internet Data Security Regulations states that, data processors conducting listing in Hong Kong which affects or may affect national security shall apply for cybersecurity review.

On April 22, 2022, our PRC Legal Advisers and the Sole Sponsor's PRC Legal Advisers have conducted a telephone consultation with the CCRC, the department responsible for receiving application materials and conducting reviews of the formalities of application materials under the authorization of CAC (the "**CCRC Consultation**"). During the CCRC Consultation, after being informed and introduced of our Group's name, principal business, the data collected by the Company and the proposed [**REDACTED**] of the Company, the CCRC confirmed that listing in Hong Kong does not constitute "foreign" listing provided in the MCSR and therefore the Company's proposed [**REDACTED**] is not required to proactively apply for cybersecurity review pursuant to the MCSR. Moreover, the CCRC understands that the enterprise shall determine by itself whether its data processing activities may affect national security, and we do not expect any scenarios that collection of information from our consumers, such as mobile phone numbers and delivery addresses, would or may affect the aforesaid factors of national security.

As advised by our PRC Legal Advisers, on the basis of the CCRC Consultation and that we have not been identified as a critical information infrastructure operator by the relevant PRC regulatory authority, we are not obliged to apply for cybersecurity review proactively in connection with the proposed [**REDACTED**] as of the Latest Practicable Date.

LAWS AND REGULATIONS RELATED TO OVERSEAS LISTING

On July 6, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council jointly promulgated the Opinions on Securities Activities. The Opinions on Securities Activities emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies.

Furthermore, on February 17, 2023, the CSRC released Trial Administrative Measures for Overseas Securities Offering and Listing by Domestic Companies (境內企業境外發行證券和上市管理試行辦法) (the "**Oversea Listing Trial Measures**") and five relevant guidelines, which became effective on March 31, 2023. Pursuant to the Overseas Listing Trial Measures, PRC domestic companies that seek to offer and list securities in overseas markets for initial public offering, regarding the subsequent securities offering in the same overseas market where it has previously offered and listed securities, and subsequent securities offering and listing in other overseas markets, either in direct or indirect means, shall complete the filing procedures and report relevant information to the CSRC. The Overseas Listing Trial Measures provide that if the issuer meets the following criteria, the overseas securities offering and listing conducted by such issuer will be deemed as an indirect overseas offering subject to the filing procedure: (i) 50% or more of the issuer's operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent fiscal year is accounted for by domestic companies; and (ii) the issuer's business activities are substantially conducted in mainland China, or its primary place(s) of business are located in mainland China, or the senior managers in charge of its business operations and management are mostly Chinese citizens or domiciled in Mainland China. Where an issuer submits an application for initial public offering to competent overseas regulators, such issuer must file with the CSRC within three business days after such application is submitted.

At a press conference held for these new regulations, officials from the CSRC clarified that the domestic companies that have already been listed overseas on or before the effective date of the Overseas Listing Trial Measures shall be deemed as the Existing Issuers. Existing Issuers are not required to complete the filling procedures immediately, but they should file with the CSRC when subsequent corporate actions such as refinancing are involved. Domestic companies that have obtained approval from overseas regulatory authorities or securities exchanges (for example, a contemplated offering and/or listing in Hong Kong has passed the hearing of the Stock Exchange) for their indirect overseas offering and listing prior to the effective date of the Overseas Listing Trial Measures but have not yet completed their indirect overseas issuance and listing, are granted a six-month transition period from March 31, 2023. Those who complete their overseas offering and listing within such six-month period are deemed as Existing Issuers and are not required to file with the CSRC for their overseas offering and listing. Within such six-month transition period, however, if such domestic companies need to reapply for offering and listing procedures to the overseas regulatory authority or securities exchanges (such as requiring a new hearing for the listing application of it shares on the Stock Exchange), or if they fail to complete their indirect overseas issuance and listing, such domestic companies shall complete the filling procedures with the CSRC. On February 17, 2023, the CSRC also issued the Notice on Administration for the Filing of Overseas Offering and Listing by Domestic Companies (關於境內企業境外發行上市備案管理安排的通知), which, clarifies that on or prior to the effective date of the Oversea Listing Trial Measures, domestic companies that have already submitted valid applications for overseas offering and listing but have not obtained approval from overseas regulatory authorities or stock exchanges may reasonably arrange the timing for submitting their filing applications with the CSRC, and must complete the filing before the completion of their overseas offering and listing.

On February 24, 2023, the CSRC released the Provisions on Strengthening Confidentiality and Archives Administration in Respect of Overseas Issuance and Listing of Securities by Domestic Enterprises (《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定》) (the "Confidentiality Provisions"), which became effective on March 31, 2023. Pursuant to the Confidentiality Provisions, domestic joint-stock enterprises listed in overseas markets via direct offering and domestic operational entities of enterprises listed in overseas markets via indirect offering must obtain approval and complete filing or other requirements before they publicly disclose any documents and materials that contain state secrets or government work secrets or that, if divulged, will jeopardize China's national security or public interest, or before they provide such documents or materials to entities or individuals such as securities companies, securities service providers and overseas regulators.

OVERVIEW

Our primary businesses commenced in 2015 with the launch of the first brand of our Group, KK Guan. We focus on operating retail stores which offer distinctively characterized merchandise to end customers directly through our self-owned stores and franchise stores which we have managed through store management arrangements. We operate four retail brands, namely KKV, THE COLORIST, X11 and KK Guan, primarily through an extensive retail network.

Mr. Wu is our founder and Mr. Guo has made significant contribution to the growth and development of the business of the Group. Mr. Wu and Mr. Guo each has extensive experience in the retail industry. For details of each of Mr. Wu's and Mr. Guo's biographies, please refer to the section headed "Directors and Senior Management" of this document.

KEY MILESTONES

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

Year	Milestone
April 2015	Established Guangdong Kuaike Electronic.
December 2015	Opened our first store of KK Guan in China.
April 2016	Completed our series seed round of financing.
August 2017	Completed our series A round of financing.
April 2018	Completed our series B round of financing.
September 2018	Completed our series B+ round of financing.
May 2019	Launched the second brand of our Group, KKV.
June 2019	Completed our series C+ round of financing.
September 2019	KKV was awarded Asia Cup "Main Store Innovation Leading Brand" in the Asia Pacific Retailer Conference. Launched the third brand of our Group, THE COLORIST, our beauty retail brand.
October 2019	Completed our series C round of financing.
November 2019	THE COLORIST has reached strategic cooperation with more than 30 well-known cosmetics brands around the world.
December 2019	Completed our series D round of financing.
January 2020	Completed our series Pre-D round of financing. Launched the fourth brand of our Group, X11. Launched the first single-building flagship store of KKV in Chengdu, the PRC.
April 2020	Completed our series D+ round of financing.
July 2020	We were awarded "China's Most Investor-Focused Startups" from 36Kr.

Year	Milestone
August 2020	We were awarded the "Demonstration Case of Development Potential" from China International Fair for Trade In Services.
September 2020	We were listed on the "2020 Hurun Global Unicorn List".
October 2020	Completed our series E round of financing.
June 2021	Launched the global flagship store of "X11" in Shanghai, Dongguan and Shenyang, the PRC. Completed our series F, series F+ and series F++ rounds of financing.

MAJOR OPERATING SUBSIDIARIES

As of the Latest Practicable Date, our Group comprised our Company and more than 40 subsidiaries, which are mainly established in the PRC. We had adopted a relatively complex group structure with a number of subsidiaries to facilitate our business and store management. We believe the adoption of such structure would enable our Group to better manage and monitor the operations of our businesses, as well as allows for flexibility and effective control in the relevant leasing, compliance and risk management.

The principal business activities, date of incorporation and date of commencement of business of our major operating subsidiaries (each of which is wholly-owned by our Company) that made a material contribution to our results of operations during the Track Record Period are summarized as follows:

Name of Subsidiary	Principal business activities	Date of establishment and commencement of business
Guangdong Kuaike Electronic Commerce Co., Ltd. (廣東快客電子商務有限公司)	Investment holding and retail of lifestyle products	April 13, 2015
Shenzhen Mengke Supply Chain Technology Co., Ltd. (深圳市盟客供應鏈科技有限公司) ("**Shenzhen Mengke Supply Chain**")	Provision of supply chain services	April 3, 2020
Dongguan Yueke Enterprise Management Service Co., Ltd. (東莞市悅客企業管理服務有限公司) ("**Dongguan Yueke**")	Enterprise management services	August 11, 2015
Guangzhou Mengke Supply Chain Technology Co., Ltd. (廣州市盟客供應鏈科技有限公司)	Provision of supply chain services	November 11, 2020
Dongguan Kuaike Business Management Co., Ltd. (東莞市快客商業管理有限公司)	Commerce management services	April 13, 2016
Dongguan Xingkong Trading Co., Ltd. (東莞市星空貿易有限公司)	Retail of lifestyle products	January 21, 2020(1)

Note:

(1) Dongguan Xinkong Trading Co., Ltd. was consolidated as a subsidiary of the Group since October 31, 2022. For further details, see "— Major Acquisitions, Disposals and Mergers — Acquisitions of Joint Ventures and Non-Wholly Owned Subsidiaries — 1. Acquisitions of Joint Ventures during Track Record Period" below.

For more details of the corporate structure of our Group and shareholding changes of our subsidiaries, please refer to the sub-sections headed "– Our Shareholding and Corporate Structure", "– Our Corporate History and Major Shareholding Changes of Our Group" below and "Appendix IV – Statutory and General Information – Further Information about Our Group – 5. Changes in the Share Capital of Our Subsidiaries" in this document.

OUR CORPORATE HISTORY AND MAJOR SHAREHOLDING CHANGES OF OUR GROUP

Our Company and Guangdong Kuaike Electronic

1. Establishment of Guangdong Kuaike Electronic

Guangdong Kuaike Electronic was established in the PRC on April 13, 2015, with an initial registered capital of RMB10,060,000. The initial shareholders of Guangdong Kuaike Electronic were Mr. Lin Jian (林劍), Mr. Wen Jiansheng (溫健勝), Ms. Shan Lixia (單麗霞) and Mr. Wu, with equity interests of 10%, 10%, 4% and 76% respectively. On January 19, 2016, (i) Mr. Wu transferred 8% equity interests in Guangdong Kuaike Electronic to Mr. Chen Hongcheng (陳宏城) ("**Mr. Chen**") and another 13% to Dongguan Kuaike Investment (currently known as Guangzhou Kuaike Enterprise Management); (ii) Ms. Shan Lixia transferred 2% equity interests in Guangdong Kuaike Electronic to Mr. Chen and another 2% to Dongguan Kuaike Investment; and (iii) Mr. Lin Jian and Mr. Wen Jiansheng each transferred all of its equity interests in Guangdong Kuaike Electronic to Dongguan Kuaike Investment, all at nil consideration. Upon completion of the abovementioned equity transfers, Guangdong Kuaike Electronic was owned as to 55% by Mr. Wu, 35% by Dongguan Kuaike Investment and 10% as to Mr. Chen. Each of Mr. Lin Jian, Mr. Wen Jiansheng, Ms. Shan Lixia and Mr. Chen is an Independent Third Party.

2. Onshore Series Seed round of Financing – Capital Increase of Guangdong Kuaike Electronic

On March 31, 2016, Guangdong Kuaike Electronic entered into a capital increase agreement with, among others, the series seed investors (the "**Series Seed Investors**") set out below, pursuant to which the Series Seed Investors agreed to subscribe for additional registered capital of Guangdong Kuaike Electronic in the amount and consideration as set forth below:

Name of Series Seed Investor	Amount of Registered Capital Subscribed	Aggregate Consideration
	RMB	RMB
Hongtu Venture	1,183,529	10,000,000
Shenzhen Capital Group	591,765	5,000,000
Total	**1,775,294**	**15,000,000**

Upon completion of the series seed financing, the registered capital of Guangdong Kuaike Electronic was increased from RMB10,060,000 to RMB11,835,294, and Guangdong Kuaike Electronic was owned as to, among others, 5% by Shenzhen Capital Group and 10% by Hongtu Venture, respectively.

For further details of the investment described above, please refer to the subsections headed "Reorganization" and "[**REDACTED**] Investments" of this section.

3. Onshore Series A round of Financing – Capital Increase of Guangdong Kuaike Electronic

On July 11, 2017, Guangdong Kuaike Electronic entered into a capital increase agreement with, among others, the series A investors (the "**Series A Investors**") set out below, pursuant to which, the Series A Investors agreed to subscribe for additional registered capital of Guangdong Kuaike Electronic in the amount and consideration as set forth below:

Name of Series A Investor	Amount of Registered Capital Subscribed	Aggregate Consideration
	RMB	RMB
Bright Growth (Shenzhen) Equity Investment Fund Enterprise (Limited Partnership) (璀璨成長(深圳)股權投資基金企業(有限合夥)) ("**Bright Growth**")	204,958	4,390,000
Bright Vision	75,167	1,610,000
Shanghai Black Algae Investment Management Center (Limited Partnership) (currently known as Shanghai Black Algae Information Technology Partnership (Limited Partnership)) ("**Shanghai Black Algae**")	1,890,846	40,500,000
Total	**2,170,971**	**46,500,000**

Upon completion of the series A financing, the registered capital of Guangdong Kuaike Electronic was increased from RMB11,835,294 to RMB14,006,265, and Guangdong Kuaike Electronic was owned as to, among others, 1.46% by Bright Growth, 0.54% by Bright Vision and 13.5% by Shanghai Black Algae, respectively.

For further details of the investment described above, please refer to the subsections headed "Reorganization" and "[**REDACTED**] Investments" of this section.

4. Onshore Series B and Series B+ rounds of Financing – Equity Transfers and Capital Increase of Guangdong Kuaike Electronic

On March 29, 2018, Guangdong Kuaike Electronic entered into a share transfer and capital increase agreement (the "**Series B Share Transfer and Capital Increase Agreement**") with, among others, the following then shareholders of Guangdong Kuaike Electronic and the series B investors (the "**Series B Investors**") in relation to a series of equity transfers and subscriptions of additional registered capital of Guangdong Kuaike Electronic as set forth below.

(a) Equity Transfers of Guangdong Kuaike Electronic

Pursuant to the Series B Share Transfer and Capital Increase Agreement, (i) Mr. Chen agreed to transfer, and Mr. Wu agreed to acquire, RMB503,000 of the registered capital of Guangdong Kuaike Electronic at the consideration of RMB503,000; and (ii) Shenzhen Capital Group and Hongtu Venture agreed to transfer, and Dongguan Kuaike Investment agreed to acquire, RMB190,303 and RMB380,605 of the registered capital of Guangdong Kuaike Electronic at a consideration of RMB5,000,000 and RMB10,000,000, respectively.

(b) Capital Increase of Guangdong Kuaike Electronic

Pursuant to the Series B Share Transfer and Capital Increase Agreement, (i) Gongqingcheng, the then share incentive platform which held underlying shares originally reserved for incentivizing the employees of Guangdong Kuaike Electronic, agreed to subscribe for RMB1,217,936 additional registered capital of Guangdong Kuaike Electronic at a consideration of RMB1,217,936; and (ii) the Series B Investors set out below agreed to subscribe for additional registered capital of Guangdong Kuaike Electronic in the amount and consideration set out as follows:

Name of Series B Investor	Amount of Registered Capital Subscribed	Aggregate Consideration
	RMB	RMB
Matrix	1,014,947	30,000,000
Bright Growth	37,215	1,100,000
Bright Vision	131,943	3,900,000
Shanghai Black Algae	507,473	15,000,000
Total	**1,691,578**	**50,000,000**

On September 3, 2018, Matrix exercised its call options under the Series B Share Transfer and Capital Increase Agreement and agreed to subscribe for RMB676,631 additional registered capital of Guangdong Kuaike Electronic at a consideration of RMB20,000,000 as series B+ financing.

Upon completion of series B and series B+ rounds of financing, the registered capital of Guangdong Kuaike Electronic was increased from RMB14,006,265 to RMB17,592,410, and Guangdong Kuaike Electronic was owned as to, among others, 9.62% by Matrix, 1.38% by Bright Growth, 1.18% by Bright Vision and 13.63% by Shanghai Black Algae, respectively.

For further details of the equity transfers and investments described above, please refer to the subsections headed "Reorganization" and "[**REDACTED**] Investments" of this section.

5. Onshore Series C and C+ rounds of Financing – Equity Transfers and Capital Increase of Guangdong Kuaike Electronic

On March 9, 2019, Guangdong Kuaike Electronic entered into a share transfer and capital increase agreement (the "**Series C Share Transfer and Capital Increase Agreement**") with, among others, the then shareholders of Guangdong Kuaike Electronic and the series C investors (the "**Series C Investors**") in relation to a series of equity transfers and subscriptions of additional registered capital. On May 10, 2019, Guangdong Kuaike Electronic further entered into a capital increase agreement (the "**Series C+ Capital Increase Agreement**") with, among others, Bright Vision and Wuyue Tianxia (as defined below) (the "**Series C+ Investors**") for their subscription of additional registered capital of Guangdong Kuaike Electronic. The details of such equity transfers and subscriptions are as set forth below.

(a) Equity Transfers of Guangdong Kuaike Electronic

Pursuant to the Series C Share Transfer and Capital Increase Agreement, Mr. Chen, Dongguan Kuaike Investment, Hongtu Venture and Bright Growth each agreed to transfer certain or all of their respective equity interests in Guangdong Kuaike Electronic to the Series C Investors for a price of RMB56.84 per each RMB1 of the registered capital of Guangdong Kuaike Electronic in the amount and consideration set out as follows:

	Name of Transferor Shareholder/ Amount of Registered Capital Acquired/Transferred				**Total Amount of Registered Capital Acquired**	**Aggregate consideration**
	RMB				**RMB**	**RMB**
Name of Series C Investor (Transferee)	Mr. Chen	Dongguan Kuaike Investment	Hongtu Venture	Bright Growth		
Redefine Capital Limited ("**Redefine**")	266,160	401,462	401,462	–	**1,069,084**	60,769,595(Note)
Shanghai Black Algae	145,886	–	–	–	**145,886**	8,292,160
Matrix	63,625	–	39,271	–	**102,896**	5,848,609
Bright Deshang	27,329	–	–	–	**27,329**	1,553,380
Shenzhen Hongtai	–	–	362,191	–	**362,191**	20,586,936
Bright Vision	–	–	–	242,173	**242,173**	13,765,113
Total Amount of Registered Capital Transferred	**503,000**	**401,462**	**802,924**	**242,173**	**1,949,559**	**110,815,793**

Note: The aggregate consideration for Redefine acquiring such RMB1,069,084 registered capital of Guangdong Kuaike Electronic was the USD equivalent of RMB60,769,595.

(b) Capital Increase of Guangdong Kuaike Electronic

Pursuant to the Series C Share Transfer and Capital Increase Agreement, the following Series C Investors agreed to subscribe for additional registered capital of Guangdong Kuaike Electronic in the amount and consideration as set forth below:

Name of Series C Investor	**Amount of Registered Capital Subscribed**	**Aggregate Consideration**
	RMB	**RMB**
Redefine	1,795,249	116,333,387
Shenzhen Hongtai	608,205	39,412,116
Matrix	172,788	11,196,761
Shanghai Black Algae	244,979	15,874,766
Bright Deshang	45,893	2,973,859
Total	**2,867,114**	**185,790,889**

(c) Further Capital Increase of Guangdong Kuaike Electronic

Pursuant to the Series C+ Capital Increase Agreement, Bright Vision and Suzhou Wuyue Venture Capital Center (Limited Partnership) (蘇州五嶽天下創業投資中心(有限合夥), "**Wuyue Tianxia**") agreed to subscribe for additional registered capital of Guangdong Kuaike Electronic in the amount and consideration as set forth below:

Name of Series C+ Investor	**Amount of Registered Capital Subscribed**	**Aggregate Consideration**
	RMB	**RMB**
Bright Vision	180,721	11,707,560
Suzhou Wuyue Venture Capital Center (Limited Partnership)	1,086,329	70,394,119
Total	**1,267,050**	**82,101,679**

Upon completion of series C and series C+ rounds of financing, the registered capital of Guangdong Kuaike Electronic was increased from RMB17,592,410 to RMB21,726,574, and Guangdong Kuaike Electronic was owned as to, among others, 13.18% by Redefine, 4.47% by Shenzhen Hongtai, 9.05% by Matrix, 12.84% by Shanghai Black Algae, 0.34% by Bright Deshang, 2.9% by Bright Vision, and 5% by Wuyue Tianxia. Guangdong Kuaike Electronic also became a sino-foreign joint venture upon completion of series C financing.

For further details of the equity transfers and investments described above, please refer to the subsections headed "Reorganization" and "[**REDACTED**] Investments" of this section.

6. Incorporation of our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on March 29, 2019. Upon incorporation, our Company had an authorized share capital of US$50,000 divided into 500,000,000 Shares with a par value of US$0.0001 each. One Share was issued subsequently to the initial subscriber Vistra (Cayman) Limited and on the same day transferred to MOGR, a company wholly-owned by Mr. Wu. An additional 5,999,999 Shares and 4,000,000 Shares were allotted and issued by our Company to MOGR (previously known as MOGR Investment Co., Ltd), a company wholly-owned by Mr. Wu, our Founder and an executive Director and Starlight (previously known as Starryland Investment Co., Ltd), a company wholly-owned by Mr. Guo, an executive Director, on the same day.

On August 7, 2020, our Company (among others) issued 2,356,312 Ordinary Shares to MOGR and repurchased 2,473,653 Ordinary Shares from Starlight. Upon completion of the above issuance, transfer and repurchase, 8,356,312 Ordinary Shares was held by MOGR and 1,526,347 Ordinary Shares was held by Starlight.

For further details on the changes in the share capital of our Company, please refer to the section headed "Further Information about our Group – 2. Changes in Our Share Capital" in Appendix IV – Statutory and General Information to this document.

7. Onshore Series Pre-D, Series D and Series D+ rounds of Financing – Capital Increase of Guangdong Kuaike Electronic

(a) Capital Increase of Guangdong Kuaike Electronic

On November 17, 2019, Guangdong Kuaike Electronic entered into a capital increase agreement with, among others, the Series Pre-D investors (the "**Series Pre-D Investors**") set out below, pursuant to which, the Series Pre-D Investors agreed to subscribe for additional registered capital of Guangdong Kuaike Electronic in the amount and consideration as set forth below:

Name of Series Pre-D Investor	Amount of Registered Capital Subscribed	Aggregate Consideration
	RMB	RMB
Redefine	495,179.19	67,485,355.85
KK Brothers	482,187.61	65,714,801.59
Matrix	340,095.65	46,349,839.95
Wuyue Tianxia	69,340.15	9,450,002.61
Total	**1,386,802.60**	**189,000,000**

On November 22, 2019, Guangdong Kuaike Electronic entered into a share transfer and capital increase agreement with, among others, the series D investors (the "**Series D Investors**") set out below, pursuant to which, (i) Bright Vision agreed to transfer, and KK Brothers agreed to subscribe for, RMB256,103.9 registered capital of Guangdong Kuaike Electronic at the consideration of RMB42,840,000.00; (ii) Gongqingcheng agreed to subscribe for RMB1,216,493.51 additional registered capital of Guangdong Kuaike Electronic at a consideration of RMB1,216,493.51; and (iii) the Series D Investors agreed to subscribe for additional registered capital of Guangdong Kuaike Electronic in the amount and consideration as set forth below:

Name of Series D Investor	Amount of Registered Capital Subscribed	Aggregate Consideration
	RMB	RMB
KK Brothers	818,293.40	136,880,734.61
Matrix	253,681.31	42,434,759.60
Total	**1,071,974.71**	**179,315,494.21**

On March 24, 2020, Guangdong Kuaike Electronic entered into a capital increase agreement with, among others, Shanghai Yiqian Enterprise Management Consulting Partnership (Limited Partnership) (上海沂乾企業管理諮詢合夥企業(有限合夥)) ("**Shanghai Yiqian**"), pursuant to which Shanghai Yiqian agreed to subscribe for RMB292,929.29 additional registered capital of Guangdong Kuaike Electronic at a consideration of RMB49,000,000 as series D+ round of financing.

Upon completion of the above equity transfer and subscriptions, the registered capital of Guangdong Kuaike Electronic was increased from RMB21,726,574 to RMB25,694,774.11, and Guangdong Kuaike Electronic was owned as to, among others, 9.3981% by Gongqingcheng, 12.9694% by Redefine, 6.0092% by KK Brothers, 9.8869% by Matrix and 4.4615% by Wuyue Tianxia, respectively.

For further details of the subscription and investment described above, please refer to the subsections headed "Reorganization" and "[**REDACTED**] Investments" of this section.

(b) Allotment and Issuance of Shares by our Company

On August 6, 2020, our Company entered into a preferred share and warrant purchase agreement (the "**August 2020 Preferred Share and Warrant Purchase Agreement**") with, among others, N5Capital Fund II, L.P. ("**N5Capital**") and X Adventure Fund I L.P. ("**X Adventure**"), pursuant to which N5Capital and X Adventure each agreed to subscribe for, and our Company agreed to issue, 124,851 Series D Preferred Shares and 83,694 Series D Preferred Shares at the consideration of USD equivalent to RMB20,884,505.78 and RMB14,000,000, respectively.

For further details of the allotment and issue described above, please refer to the subsection headed "[**REDACTED**] Investments" of this section.

8. Offshore and Onshore Series E Financing – Allotment and Issue of Preferred Shares and Warrants by our Company and Capital Increase of Guangdong Kuaike Electronic

On July 10, 2020, our Company and Guangdong Kuaike Electronic entered into a preferred shares purchase agreement (the "**Series E Preferred Shares Purchase Agreement**") with, among others, the series E investors (the "**Series E Investors**") set out under subsection (a) below, pursuant to which (i) our Company agreed to issue, and CMC Krypton, KK Brothers, INCE Capital Partners, L.P. ("**INCE Capital**"), Lighthouse Capital International Inc., Lighthousecap Fellow L.P. ("**Lighthousecap Fellow**"), Lighthousecap International Inc. ("**Lighthousecap International**") and eWTP agreed to subscribe for, a total of 3,546,762 Series E Preferred Shares at a price of US$25.09 per share for an aggregate consideration of US$89,000,000; (ii) our Company agreed to issue, and CMC Krypton agreed to subscribe for, a warrant to purchase certain Preferred Shares with the aggregate purchase price up to US$15,000,000 (the "**CMC Warrant**"); and (iii) our Company agreed to issue, and Shenzhen Hongtai and Matrix each agreed to subscribe for, a warrant carrying the right for each of them to purchase from our Company certain number of Series E Preferred Shares reflecting their subscription of registered capital of Guangdong Kuaike Electronic as they were then yet to obtain outbound direct investments (ODI) approval for the subscription of the relevant Series E Preferred Shares (the "**Hongtai Series E Warrant**" and the "**Matrix Series E Warrant**").

On July 10, 2020, Guangdong Kuaike Electronic also entered into a capital increase agreement with, among others, Shenzhen Hongtai and Matrix, pursuant to which Shenzhen Hongtai and Matrix agreed to subscribe for the additional registered capital of RMB506,062.02 of Guangdong Kuaike Electronic at an aggregate consideration of RMB90,000,000.

Details of (i) the allotment and issuance of the Series E Preferred Shares; and (ii) the subscription of additional registered capital at Guangdong Kuaike Electronic are set forth below:

(a) Allotment and issuance of Series E Preferred Shares by our Company

Name of Series E Investor	Number of Series E Preferred Shares	Aggregate Consideration
		USD
CMC Krypton	2,191,819	55,000,000
KK Brothers	797,025	20,000,000
eWTP	79,703	2,000,000
INCE Capital	398,513	10,000,000
Lighthouse Capital International Inc.	31,881	800,000
Lighthousecap Fellow	7,970	200,000
Lighthousecap International	39,851	1,000,000
Subtotal	**3,546,762**	**89,000,000**
		RMB
Shenzhen Hongtai(1)	449,833	80,000,000
Matrix(2)	56,229	10,000,000
Subtotal	**506,062**	**90,000,000**

Notes:

(1) On May 31, 2021, 449,833 Series E Preferred Shares were allotted and issued by our Company to Shanghai Chongyi Enterprise Management Consultation Partnership (Limited Partnership) (上海翀益企業管理諮詢合夥企業(有限合夥)) ("**Shanghai Chongyi**"), a wholly-owned subsidiary of Shenzhen Hongtai which Shenzhen Hongtai assigned its Hongtai Series E Warrant to, pursuant to Shanghai Chongyi's exercise of the Hongtai Series E Warrant. For details of the warrant, please refer to the subsections headed "Reorganization" and "[**REDACTED**] Investments" of this section.

(2) On May 31, 2021, 56,229 Series E Preferred Shares were allotted and issued by our Company to Shanghai Weili Enterprise Management Consultation Partnership (Limited Partnership) (上海緯礪企業管理諮詢合夥企業(有限合夥) ("**Shanghai Weili**"), an affiliate of Matrix which Matrix assigned its Matrix Series E Warrant to, pursuant to Shanghai Weili's exercise of the Matrix Series E Warrant. For details of the warrant, please refer to the subsections headed "Reorganization" and "[**REDACTED**] Investments" of this section.

(b) Subscription of additional registered capital in Guangdong Kuaike Electronic

Name of Series E Investor	Amount of Registered Capital Subscribed	Aggregate Consideration
	RMB	RMB
Shenzhen Hongtai	449,832.91	80,000,000
Matrix	56,229.11	10,000,000
Total	**506,062.02**	**90,000,000**

Upon completion of series E financing, the registered capital of Guangdong Kuaike Electronic was increased from RMB25,694,774.11 to RMB26,200,836.13, and Guangdong Kuaike Electronic was held as to, among others, 5.4205% by Shenzhen Hongtai and 9.9893% by Matrix, respectively.

For further details of the allotment and issue described above, please refer to the subsections headed "Reorganization" and "[**REDACTED**] Investments" of this section.

9. Offshore Series F, Series F+ and Series F++ rounds of Financing

(a) Series F round of Financing

On March 30, 2021, our Company and Guangdong Kuaike Electronic entered into a share and warrant purchase agreement (the "**First Series F Share and Warrant Purchase Agreement**") with, among others, (i) the series F investors (the "**Series F Investors**") as set out in the below table, pursuant to which the Series F Investors (except for Qidian Equity Investment (Guangdong) Partnership (Limited Partnership) (奇點股權投資(廣東)合夥企業(有限合夥)) ("**Qidian**") agreed to subscribe, and our Company agreed to issue and allot, Series F Preferred Shares set forth in the below table at the purchase price of US$83.4554 per share; and (ii) Qidian, pursuant to which our Company agreed to issue, and Qidian agreed to subscribe for, a warrant carrying the right to purchase from our Company 599,123 Series F Preferred Shares as it was yet to obtain the outbound direct investments (ODI) approval for the subscription of the relevant Series F Preferred Shares then (the "**Qidian Warrant**"). Details of series F round of financing of our Company are set forth as below:

Name of Series F Investor(1)	Number of Series F Preferred Shares	Aggregate Consideration
		USD
Harvest International Premium Value (Secondary Market) Fund SPC on behalf of Harvest New Retail Investment SP ("**Harvest International**")	119,825	10,000,000
Kamet Thrive 3 Limited	119,825	10,000,000
Guolian Securities Global Investment SPC for the account of Guolian International China Consumer Fund I SP ("**Guolian Securities**")	119,825	10,000,000
Qidian(2)	599,123	US$50,000,000 or its USD equivalent
KK Brothers	1,198,246	100,000,000
CMC II(3)	179,737	15,000,000
ZUIKAKU CO., LIMITED	59,912	5,000,000
Total	**2,396,493**	**200,000,000**

Notes:

(1) Bright Capital Limited, a limited liability company incorporated in the British Virgin Islands and an Independent Third Party, was originally also a Series F Investor subscribing for 239,649 Series F Preferred Shares under the First Series F Share and Warrant Purchase Agreement. However, such investment did not proceed to completion as the consideration has not been settled. On September 10, 2021, Bright Capital Limited irrevocably surrendered 239,649 Series F Preferred Shares to our Company for cancellation, and our Company cancelled such 239,649 Series F Preferred Shares on the same day.

For further details, please see the section headed "Appendix IV – Statutory and General Information – Further Information about Our Group – 2. Changes in Our Share Capital."

(2) On the same date as the First Series F Share and Warrant Purchase Agreement (March 30, 2021) was entered into, Qidian provided Shenzhen Mengke Supply Chain, an onshore wholly-owned subsidiary of our Company, a convertible loan with the principal amount of USD50,000,000 (being the USD equivalent of RMB328,205,000 based on the then central parity rate as published by the People's Bank of China). On April 9, 2021, our Company issued to Qidian a warrant to subscribe for an aggregate of 599,123 Series F Preferred Shares at a consideration of RMB328,205,000 or its USD equivalent.

Upon Qidian's completion of its ODI registrations and obtaining the relevant approvals from the PRC government for its subscription of the Series F Preferred Shares, Shenzhen Mengke Supply Chain fully settled the convertible loan of US$50,000,000 owed to Qidian on May 12, 2021. Qidian subsequently assigned the Qidian Warrant to its subsidiary, Shanghai Yukuang Enterprise Management Consultation Partnership (Limited Partnership) (上海煜曠企業管理諮詢合夥企業(有限合夥)) ("**Shanghai Yukuang**"), which Shanghai Yukuang fully exercised the Qidian Warrant on May 28, 2021 and our Company issued to Shanghai Yukuang an aggregate of 599,123 Series F Preferred Shares. The exercise price of such warrant (being the USD equivalent of RMB328,205,000) was fully paid by June 7, 2021.

(3) Pursuant to the CMC Warrant issued under the series E round of financing, CMC Krypton (or its designated affiliate) has the right to purchase from our Company certain number of Shares with the aggregate purchase price up to US$15,000,000 at the subsequent round of equity financing of our Company after the date of the CMC Warrant. CMC Krypton assigned the CMC Warrant to CMC II, and CMC II fully exercised the CMC Warrant to subscribe for 179,737 Series F Preferred Shares on March 30, 2021, and the aggregate consideration was settled on April 12, 2021.

(b) Series F+ round of Financing

On May 28, 2021, our Company and Guangdong Kuaike Electronic entered into a share purchase agreement (the "**Second Series F Preferred Share Purchase Agreement**") with, among others, the Series F+ investors (the "**Series F+ Investors**") as set out in the below table, pursuant to which the Series F+ Investors agreed to subscribe for, and our Company agreed to issue and allot, Series F Preferred Shares set forth in the below table at the purchase price of US$83.4554 per share. Details of series F+ round of financing of our Company are set forth as below:

Name of Series F+ Investor	Number of Series F Preferred Shares	Aggregate Consideration
		USD
Angara Innovation Limited ("**JD Angara**")	479,298	40,000,000
Pluto Connection Limited	179,737	15,000,000
CMBC International Holdings Limited	59,912	5,000,000
STARWIN FUND SPC – SUNRISE FUND SP	35,947	3,000,000
INCE Capital	119,825	10,000,000
Total	**874,719**	**73,000,000**

(c) Series F++ round of Financing

On June 4, 2021, our Company and Guangdong Kuaike Electronic entered into a share purchase agreement (the "**Third Series F Preferred Share Purchase Agreement**") with, among others, Redview Capital Investment XI Limited ("**Redview Capital**") as the series F++ investor, pursuant to which Redview Capital agreed to subscribe, and our Company agreed to issue and allot, 239,649 Series F Preferred Shares at the purchase price of US$83.4553 per share in an aggregate consideration of USD20,000,000.

On the same date, our Company entered into a share repurchase agreement with KK Brothers, pursuant to which our Company agreed to repurchase, and KK Brothers agreed to sell, 155,772 Series F Preferred Shares for an aggregate purchase price of US$13,000,000.

For further details of the allotment and issue described above, please refer to the subsection headed "[**REDACTED**] Investments" of this section.

10. RSU Scheme

We adopted the RSU Scheme on June 23, 2021 (the "**Adoption Date**"), for the purpose of recognizing and rewarding the RSU participants (including full time employees of the Group and any person who, in the sole opinion of the Board, has contributed or will contribute to the Group) for their contribution to the Group, to attract suitable personnel, and to provide incentives to them to remain with and further contribute to the Group.

To facilitate the administration of the RSU Scheme, on August 12, 2021, we have appointed Futu Trustee Limited, an Independent Third Party, as the trustee (the "**RSU Trustee**") and KK Evergreen Holdings Co., Ltd, a company wholly owned by the RSU Trustee and an Independent Third Party, as the nominee (the "**RSU Nominee**"), to hold the underlying Shares under the RSU Scheme. As of the Latest Practicable Date, the RSU Nominee held an aggregate of 2,657,335 Shares, all of which were underlying Shares of the awards under the RSU Scheme.

Details of the shareholding structure of our Company as of the Latest Practicable Date are set out in the subsections headed "Our Shareholding and Corporate Structure" and "Capitalization of Our Company" below.

As of the Latest Practicable Date, our Company [has] granted RSUs representing an aggregate of [●] underlying Shares pursuant to the RSU Scheme. Our Company does not have any outstanding options, warrants or other convertible securities. A summary of the principal terms of the RSU Scheme are set out in the section headed "Appendix IV – Statutory and General Information – RSU Scheme."

Shenzhen Mengke Supply Chain

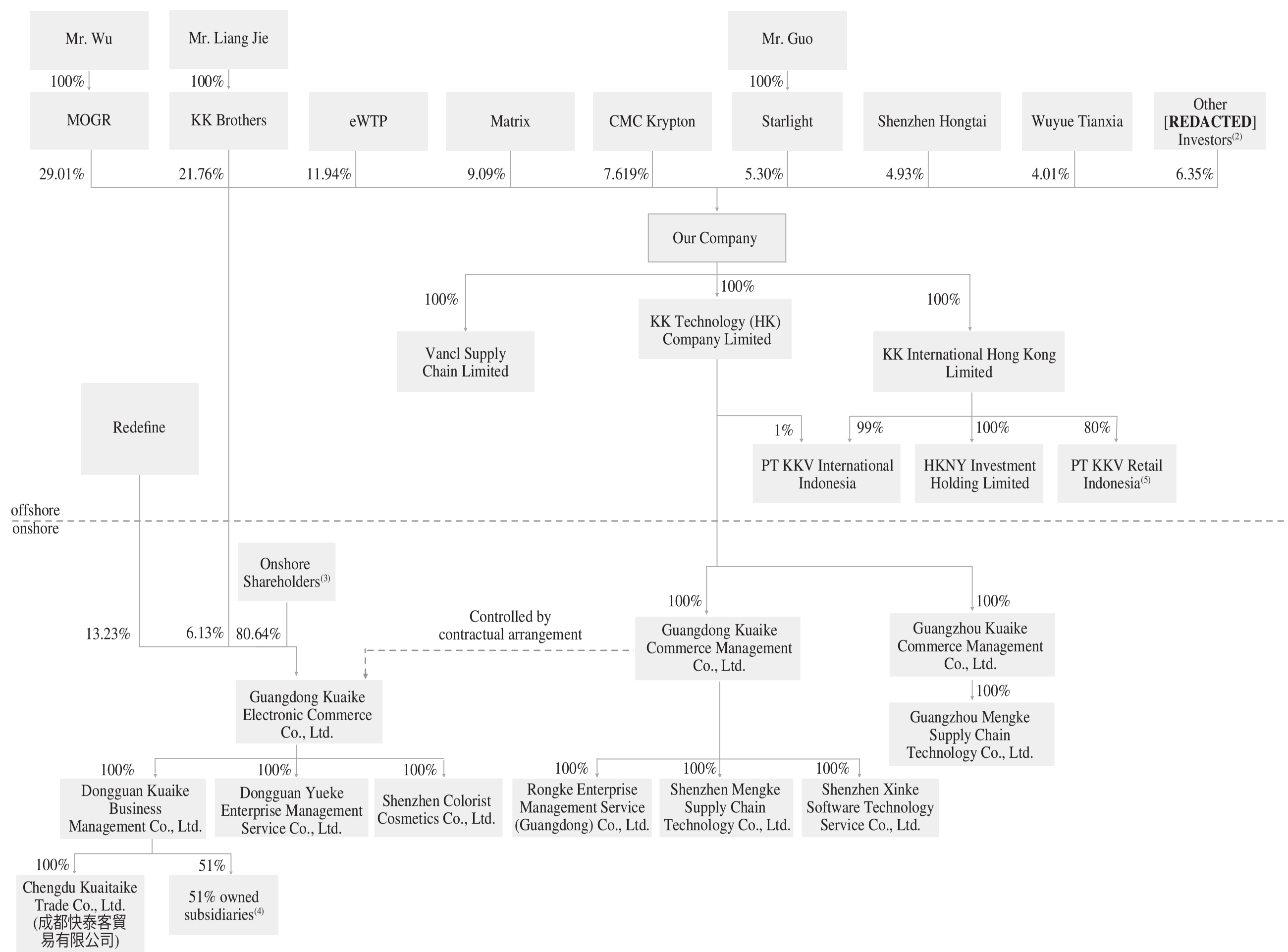
Shenzhen Mengke Supply Chain was established as a limited liability company in the PRC on April 3, 2020 with an initial registered capital of RMB20,000,000. It is principally engaged in provision of supply chain services. Upon its establishment and as of the Latest Practicable Date, it was wholly-owned by our Company. On June 15, 2020, August 7, 2020, May 8, 2021, the registered capital of Shenzhen Mengke Supply Chain was increased from RMB20,000,000 to RMB100,000,000, from RMB100,000,000 to RMB1,000,000,000, and from RMB1,000,000,000 to RMB3,000,000,000, respectively.

Dongguan Yueke

Dongguan Yueke was established as a limited liability company in the PRC on August 11, 2015 with an initial registered capital of RMB500,000. It is principally engaged in commerce management service. Upon its establishment and as of the Latest Practicable Date, it was wholly-owned by our Company.

REORGANIZATION

For the purpose of [**REDACTED**], we underwent the Reorganization. The following diagram depicts a simplified corporate and shareholding structure of our Group immediately prior to the commencement of the Reorganization in preparation for the [**REDACTED**]:



Notes:

(1) The shareholdings of the respective Shareholders are calculated in accordance with the articles of association of our Company on the following bases: (i) on an "as-converted basis" which assume the Preferred Shares have been converted into voting ordinary Shares at such time and no other equity securities have been so converted, exercised or exchanged; and (ii) assuming the holder of each golden share (representing interests underlying the warrants to the investors) being entitled to vote as if such holder holds such number of voting shares (on an as-converted basis) after the relevant warrant is exercised.

(2) Other [**REDACTED**] Investors refer to:

(i) Shenzhen Capital Group (1.30%); (ii) Bright Vision (1.30%); (iii) Bright Deshang (0.25%); (iv) N5Capital (0.40%); (v) X Adventure (0.29%); (vi) INCE Capital (1.38%); (vii) Shanghai Yiqian (1.02%); (viii) Lighthouse Capital International Inc. (0.11%); (ix) Lighthousecap Fellow (0.03%); and (x) Lighthousecap International (0.14%).

(3) Onshore shareholders refer to:

(i) Mr. Wu (23.76%); (ii) Guangzhou Kuaike Enterprise Management (14.53%); (iii) Shanghai Black Algae (10.98%); (iv) Matrix (10.08%); (v) Gongqingcheng (9.58%); (vi) Wuyue Tianxia (4.55%); (vii) Shenzhen Hongtai (3.82%); (viii) Shenzhen Capital Group (1.58%); (ix) Bright Vision (1.47%); and (x) Bright Deshang (0.29%).

(4) For details of the 51% owned subsidiaries (other than Fuyang Guoguang Trading Co., Ltd. (阜陽市國廣商貿有限公司) and Nanjing Zimayi Brand Management Co., Ltd. (南京紫螞蟻品牌管理有限公司) which were established after the commencement of Reorganization, and Shanghai Kuaicheng Trading Co., Ltd. (上海快澄商貿有限責任公司) which was deregistered on January 23, 2024), please refer to the subsection headed "Our Shareholding and Corporate Structure" with the diagram in relation to the corporate structure of our Company prior to the completion of the [**REDACTED**].

(5) In line with the optimization of sales and marketing strategies tailored to local conditions in Indonesia, we transferred 80% shareholding in PT KKV Retail Indonesia to an Independent Third Party established in Indonesia in July 2022. Subsequent to the transfer, PT KKV Retail Indonesia no longer is a subsidiary of our Group. For further details, see "Business – Our Development Strategies – Our Retail Brands – KKV."

Step 1: Issuance of Warrants to Onshore Restructuring Participants

For the purpose of consolidating the [**REDACTED**] Investments in Guangdong Kuaike Electronic to the shareholding structure of our Company, our Company issued (i) warrants (together with the Hongtai Series E Warrant, the "**Restructuring Warrants**") to each of SCGC Capital Holding Company Limited (SCGC資本控股有限公司) ("**SCGC**") (an affiliate of Shenzhen Capital Group), KK Brothers, Matrix, Bright Vision, eWTP, Shenzhen Hongtai, Bright Deshang, Wuyue Tianxia and Shanghai Yiqian (the "**Onshore Restructuring Participants**") on August 7, 2020 pursuant to the August 2020 Preferred Share and Warrant Purchase Agreement; and (ii) the Hongtai Series E Warrant on October 22, 2020, for each of the Onshore Restructuring Participants to subscribe for certain number of Preferred Shares corresponding to their then shareholdings in Guangdong Kuaike Electronic upon (a) their receipt of the capital reduction amount from the Onshore Capital Reduction (as defined below) and (b) their completion of ODI registration and obtaining of the relevant approvals from the PRC government. Our Company has also issued golden shares of the Company (the "**Golden Share(s)**") representing the interests underlying the Restructuring Warrants to the Onshore Restructuring Participants together with the Restructuring Warrants on August 7, 2020 and October 22, 2020 respectively.

For further details of the Restructuring Warrants, please refer to the subsections headed "Reorganization – Step 4: Restoration of Shareholding Interests in Guangdong Kuaike Electronic to our Company" and "[**REDACTED**] Investments" in this section.

Step 2: Capital Increase and Capital Reduction of Guangdong Kuaike Electronic

Pursuant to a restructuring agreement dated April 9, 2021 (as amended and supplemented from time to time) entered into by, among others, Guangdong Kuaike Electronic, our Company and the then shareholders of Guangdong Kuaike Electronic (the "**Restructuring Agreement**"), an onshore capital restructuring comprising, among others, (i) a capital increase of Guangdong Kuaike Electronic with issuance of additional registered capital to Redefine and KK Brothers by way of capitalization of capital reserve; and (ii) a capital reduction of Guangdong Kuaike Electronic was implemented.

Capital Increase of Guangdong Kuaike Electronic

As a step to facilitate the onshore capital reduction of Guangdong Kuaike Electronic as part of the Reorganization, Guangdong Kuaike Electronic has issued additional registered capital to KK Brothers and Redefine through capitalization of capital reserve of Guangdong Kuaike Electronic which was contributed by the premium from their respective historical investment in Guangdong Kuaike Electronic. In this respect, on April 9, 2021, RMB243,879,000 and RMB241,228,800 additional registered capital of Guangdong Kuaike Electronic was issued to KK Brothers and Redefine, respectively (the "**Restructuring Capital Increase**").

Capital Reduction of Guangdong Kuaike Electronic

A capital reduction of Guangdong Kuaike Electronic was effected whereby each of the Onshore Restructuring Participants would reduce or cease to hold equity interests in Guangdong Kuaike Electronic through reduction of their registered capital at Guangdong Kuaike Electronic (the "**Onshore Capital Reduction**"). Guangdong Kuaike Electronic returned the original investment amount to the respective [**REDACTED**] Investors, which then the capital reduction amount was applied for settlement of the respective exercise prices under the Restructuring Warrants for the corresponding number of Preferred Shares.

Details of the Onshore Capital Reduction are set forth below:

No.	Onshore Restructuring Participants and Shareholders	Onshore Capital Reduction Amount[1]	Shareholding percentage (%) in Guangdong Kuaike Electronic after the Onshore Share Capital Reduction
		RMB	
1.	SCGC	401,462	0%
2.	KK Brothers	245,435,536[2]	1%
3.	Matrix	2,561,039	0%
4.	Bright Vision	373,900	0%
5.	eWTP	244,588,338[3]	0%
6.	Shenzhen Hongtai	970,396	0%
7.	Bright Deshang	73,222	0%
8.	Wuyue Tianxia	1,155,669	0%
9.	Shanghai Yiqian	292,929	0%
10.	Shanghai Black Algae	2,789,184[2]	0%

Notes:

(1) The Onshore Capital Reduction amount was determined based on the investment amount made by the relevant shareholder in Guangdong Kuaike Electronic.

(2) Such Onshore Capital Reduction amount in aggregate represents the investments made for the aggregate shareholding of KK Brothers and Shanghai Black Algae in Guangdong Kuaike Electronic prior to the Onshore Share Capital Reduction. Shanghai Black Algae has designated KK Brothers, being its affiliate, to subscribe for its corresponding part of shareholdings at our Company for the purpose of Reorganization. Shanghai Black Algae is owned as to 90% by Mr. Liang Jie (梁捷), a non-executive Director and 10% by Ms. Shen Huashan (沈華姍) (spouse of Mr. Liang Jie). KK Brothers is indirectly owned as to 100% by TMF (Cayman) Ltd, the trustee of the Liang Family Trust. Liang Family Trust is a trust established by Mr. Liang Jie (梁捷) for the benefit of himself and his family.

(3) Such Onshore Capital Reduction amount represents the investments made for the aggregate shareholding of eWTP and Redefine in Guangdong Kuaike Electronic. Redefine has designated eWTP, being its sole shareholder, to subscribe for the shareholdings of our Company for the purpose of Reorganization.

As a result of the Restructuring Capital Increase and the Onshore Capital Reduction, the total registered capital of Guangdong Kuaike Electronic was reduced to RMB12,283,713 as at June 1, 2021. The shareholding structure of Guangdong Kuaike Electronic immediately before and upon completion of the Restructuring Capital Increase and the Onshore Capital Reduction is set out as follows:

	Immediately before the Restructuring Capital Increase and Onshore Capital Reduction		Upon completion of the Restructuring Capital Increase and Onshore Capital Reduction	
Shareholders	**Registered Capital Subscribed (RMB)**	**Shareholding Percentage**	**Registered Capital Subscribed (RMB)**	**Shareholding Percentage**
Mr. Wu	6,036,000.00	23.0374%	6,036,000	49.1382%
Guangzhou Kuaike Enterprise Management (previously known as Dongguan Kuaike Investment)	3,690,446.00	14.0852%	3,690,446	30.0434%
Gongqingcheng	2,434,429.51	9.2914%	2,434,430	19.8184%
KK Brothers	1,556,584.91	5.9410%	122,837	1.0000%
SCGC	401,462.00	1.5322%	–	–
Matrix	2,617,268.07	9.9893%	–	–
Bright Vision	373,900.10	1.4271%	–	–
Redefine	3,359,512.19	12.8222%	–	–
Shenzhen Hongtai	1,420,228.91	5.4205%	–	–
Bright Deshang	73,222.00	0.2795%	–	–
Wuyue Tianxia	1,155,669.15	4.4108%	–	–
Shanghai Black Algae	2,789,184.00	10.6454%	–	–
Shanghai Yiqian	292,929.29	1.1180%	–	–
Total	**26,200,836.13**	**100%**	**12,283,713**	**100%**

Step 3: Acquisition of Guangdong Kuaike Electronic by Dongguan WFOE and Termination of VIE Arrangements

Acquisition of 100% of Guangdong Kuaike Electronic by Dongguan WFOE

Upon completion of the Restructuring Capital Increase and the Onshore Capital Reduction, on June 29, 2021, Mr Wu, Guangzhou Kuaike Enterprise Management, Gongqingcheng and KK Brothers transferred in aggregate 100% of their respective equity interests of Guangdong Kuaike Electronic to Dongguan WFOE at the consideration of RMB6,036,000, RMB3,690,446, RMB0 and RMB122,837.13, respectively, representing the respective amount of registered capital of Guangdong Kuaike Electronic subscribed for and settled by each of them as of June 29, 2021. Upon completion of such equity transfers, Guangdong Kuaike Electronic is 100% owned by Dongguan WFOE, a wholly-owned subsidiary of KK Technology HK, which is in turn 100% owned by our Company.

Termination of VIE Arrangements

On August 6, 2020 and August 7, 2020, a series of contractual arrangements were entered into by and among Guangdong Kuaike Electronic, its then registered shareholders (including Mr. Wu, Mr. Guo and certain of our [**REDACTED**] Investors) and Guangdong Kuaike Commerce Management Co., Ltd. ("**Shenzhen WFOE**", a wholly foreign-owned enterprise and a wholly-owned subsidiary of our Company) (the "**Previous Contractual Arrangements**"), pursuant to which Shenzhen WFOE gained management control over the operations of our business conducted through Guangdong Kuaike Electronic and its subsidiaries, and enjoy economic benefits of

Guangdong Kuaike Electronic and its subsidiaries. The Previous Contractual Arrangements (which was further amended on October 22, 2020 to take into account of the change of shareholdings of Guangdong Kuaike Electronic following the completion of the onshore Series E financing) comprises exclusive option agreements, exclusive business cooperation agreement, powers of attorney, equity pledge agreements and spouse undertakings, each of which contains customary terms and conditions.

Subsequently, having consulted the PRC legal adviser of the Company and considered the applicable regulatory requirements in relation to contractual arrangements, the Previous Contractual Arrangements were terminated on July 27, 2021 as part of our Reorganization for the preparation of the [**REDACTED**] as the business operation of the Group does not involve business which foreign investment is prohibited or restricted under the applicable PRC laws and regulations. As advised by our PRC Legal Advisers, (i) the implementation and termination of the Previous Contractual Arrangements do not violate the PRC laws and regulations in any material respect; and (ii) all rights and obligations under the Previous Contractual Arrangements have ceased legally and the parties waived all rights and claims (if any) thereunder. Our Company is of the view that such termination of the Previous Contractual Arrangements has no material adverse impact on the business operation of the Group and as of the Latest Practicable Date, we were not aware of any potential or actual litigation, claims or other disputes that would arise under the Previous Contractual Arrangements. For more details of the shareholding changes of Guangdong Kuaike Electronic, please refer to the subsection headed "Our Corporate History and Major Shareholding Changes of our Group" above.

Step 4: Restoration of Shareholding Interests in Guangdong Kuaike Electronic to our Company

Exercise of Restructuring Warrants and issuance of Preferred Shares

During the period from November 27, 2020 to May 28, 2021, upon the receipt of the relevant cash consideration from the Onshore Capital Reduction, the Onshore Restructuring Participants and/or their designated affiliates, pursuant to the Restructuring Agreement, applied such cash consideration to acquire Preferred Shares by exercising their Restructuring Warrants for the purpose of restoring and aligning their previous shareholding interests in Guangdong Kuaike Electronic prior to the Restructuring Capital Increase and the Onshore Capital Reduction. Details of such allotment and issuance of Preferred Shares are set forth below:

	Onshore Restructuring Participants									
Number of Preferred Shares	SCGC(1)	KK Brothers(2)	Matrix(3)	Bright Vision(4)	eWTP(5)	Shenzhen Hongtai(6)	Bright Deshang(7)	Wuyue Tianxia(8)	Shanghai Yiqian (9)	Shenzhen Hongtai (10)
Series Seed Preferred Share	401,462	–	–	–	–	–	–	–	–	–
Series A Preferred Shares	–	1,890,846	–	24,021	–	–	–	–	–	–
Series B Preferred Shares	–	507,473	1,691,578	169,158	–	–	–	–	–	–
Series C Preferred Shares	–	390,865	275,684	180,721	2,864,333	970,396	73,222	1,086,329	–	–
Series Pre-D Preferred Shares	–	482,187	340,096	–	495,179	–	–	69,340	–	–
Series D Preferred Shares	–	1,074,397	253,681	–	–	–	–	–	292,929	–
Series E Preferred Shares	–	–	56,229	–	–	–	–	–	–	449,833

Notes:

(1) Pursuant to the onshore series seed round of financing of Guangdong Kuaike Electronic which was settled on March 31, 2016, Shenzhen Capital Group subscribed for RMB591,765 registered capital of Guangdong Kuaike Electronic. Subsequently, in series B round of financing of Guangdong Kuaike Electronic, Shenzhen Capital Group transferred RMB190,303 registered capital of Guangdong Kuaike Electronic to Dongguan Kuaike Investment at a consideration of RMB5,000,000. As part of the Reorganization, Shenzhen Capital Group assigned SCGC (its indirect wholly-owned subsidiary) to subscribe for the warrant to purchase 401,462 Series Seed Preferred Shares to restore and align its interests in Guangdong Kuaike Electronic to the shareholding in our Company (the "**Shenzhen Capital Group Warrant**"). SCGC assigned the Shenzhen Capital Group Warrant to its wholly-owned subsidiary, Red Earth Innovation International Company Limited (紅土創新國際有限公司) ("**Red Earth**"). 401,462 Series Seed Preferred Shares were issued by our Company to Red Earth on May 31, 2021 pursuant to the full exercise of the Shenzhen Capital Group Warrant by Red Earth.

(2) Pursuant to the onshore series A, B and C rounds of financing of Guangdong Kuaike Electronic which were settled on July 21, 2017, April 4, 2018 and April 2, 2019, Shanghai Black Algae subscribed for RMB1,890,846, RMB507,473 and RMB244,979 registered capital of Guangdong Kuaike Electronic, respectively. Shanghai Black Algae also acquired RMB145,886 registered capital of Guangdong Kuaike Electronic from Mr. Chen in the onshore series C round of financing of Guangdong Kuaike Electronic. Pursuant to the onshore series Pre-D and D rounds of financing of Guangdong Kuaike Electronic which were both settled on December 26, 2019, KK Brothers subscribed for RMB482,187.61 and RMB818,293.40 registered capital of Guangdong Kuaike Electronic, respectively.

As part of the Reorganization, Shanghai Black Algae assigned KK Brothers, being its affiliate, to subscribe for the warrant to purchase the corresponding series of Preferred Shares for the purpose of restoring and aligning its shareholding interests in Guangdong Kuaike Electronic to our Company. As a result, KK Brothers subscribed for a warrant to subscribe 1,890,846 Series A Preferred Shares, 507,473, Series B Preferred Shares, 390,865 Series C Preferred Shares, 482,187 Series Pre-D Preferred Shares and 1,074,397 Series D Preferred Shares.

1,890,846 Series A Preferred Share, 507,473, Series B Preferred Shares, 390,865 Series C Preferred Shares, 482,187 Series Pre-D Preferred Shares and 1,074,397 Series D Preferred Shares were issued by our Company to KK Brothers on May 31, 2021 pursuant to the full exercise of its warrant by KK Brothers.

(3) Pursuant to the onshore series B, B+, C, Pre-D and D rounds of financing of Guangdong Kuaike Electronic which were settled on April 2, 2018, September 26, 2018, April 9, 2019, December 2, 2019 and December 2, 2019, respectively, Matrix subscribed for and/or acquired RMB1,014,947, RMB676,631, RMB275,684, RMB340,095.65 and RMB253,681.31 registered capital of Guangdong Kuaike Electronic, respectively. As part of the Reorganization, our Company issued, and Matrix subscribed for, a warrant to purchase 1,691,578 Series B Preferred Shares, 275,684 Series C Preferred Shares, 340,096 Series Pre-D Preferred Shares and 253,681 Series D Preferred Shares for the purpose of restoring and aligning Matrix's shareholding interests in Guangdong Kuaike Electronic to our Company (the "**Matrix Warrant**"). Matrix assigned the Matrix Warrant to its affiliate, Shanghai Weili. 1,691,578 Series B Preferred Shares, 275,684 Series C Preferred Shares, 340,096 Series Pre-D Preferred Shares and 253,681 Series D Preferred Share were issued by our Company to Shanghai Weili on May 31, 2021 pursuant to the full exercise of the Matrix Warrant by Shanghai Weili.

Pursuant to the offshore and onshore series E round of financing of our Company and Guangdong Kuaike Electronic, (i) Matrix subscribed for RMB56,229.11 registered capital of Guangdong Kuaike Electronic at the consideration of RMB10,000,000 which was settled on August 7, 2020; and (ii) our Company issued and Matrix subscribed for the Matrix Series E Warrant on August 7, 2020. 56,229 Series E Preferred Shares were issued by our Company to Shanghai Weili, an affiliate of Matrix which Matrix assigned its Matrix Series E Warrant to, on May 31, 2021, pursuant to the full exercise of the Matrix Series E Warrant by Shanghai Weili.

(4) Pursuant to the onshore series A, B, C and C+ rounds of financing of Guangdong Kuaike Electronic which were settled on August 3, 2017, April 11, 2018, October 17, 2019 and June 14, 2019, respectively, Bright Vision subscribed for and/or acquired RMB75,167, RMB131,943, RMB242,173 and RMB180,721 registered capital of Guangdong Kuaike Electronic, respectively. Subsequently, in series D round of financing of Guangdong Kuaike Electronic, Bright Vision transferred RMB256,103.9 registered capital of Guangdong Kuaike Electronic to KK Brothers at the consideration of RMB42,840,000.00. As part of the Reorganization, our Company issued, and Bright Vision subscribed for, a warrant to purchase 24,021 Series A Preferred Shares, 169,158 Series B Preferred Shares and 180,721 Series C Preferred Shares for the purpose of restoring and aligning Bright Vision's shareholding interests in Guangdong Kuaike Electronic to our Company (the "**Bright Vision Warrant**"). Bright Vision assigned the Bright Vision Warrant to its affiliate, Bright Galaxy Limited ("**Bright Galaxy**"). 24,021 Series A Preferred Shares, 169,158 Series B Preferred Shares and 180,721 Series C Preferred Shares were issued by our Company to Bright Galaxy on May 31, 2021 pursuant to the full exercise of the Bright Vision Warrant by Bright Galaxy. Bright Galaxy subsequently transferred 16,523 series A Preferred Shares, 116,354 series B Preferred Shares, and 124,308 series C Preferred Shares to Bright Galaxy II Limited, its wholly-owned subsidiary, on July 20, 2021.

(5) Pursuant to the onshore series C, C+ and Pre-D rounds of financing of Guangdong Kuaike Electronic which were settled on October 30, 2019, September 30, 2019 and January 2, 2020, respectively, Redefine subscribed for and/or acquired RMB1,069,084, RMB1,795,249, and RMB495,179.19 registered capital of Guangdong Kuaike Electronic, respectively.

As part of the Reorganization, Redefine assigned eWTP, being its sole shareholder, to subscribe for the warrant to purchase the corresponding number of Preferred Shares for the purpose of restoring and aligning Redefine's shareholding interests in Guangdong Kuaike Electronic to our Company. As a result, eWTP subscribed for a warrant to purchase 2,864,333 Series C Preferred Shares and 495,179 Series Pre-D Preferred Shares. 2,864,333 Series C Preferred Shares and 495,179 Series Pre-D Preferred Shares were issued by our Company to eWTP on May 31, 2021 pursuant to the full exercise of the warrant by eWTP.

(6) Pursuant to the onshore series C round of financing of Guangdong Kuaike Electronic which was settled on April 4, 2019, Shenzhen Hongtai subscribed for RMB970,396 registered capital of Guangdong Kuaike Electronic. As part of the Reorganization, our Company issued, and Shenzhen Hongtai subscribed, a warrant to purchase 970,396 Series C Preferred Shares to restore and align Shenzhen Hongtai's interests in Guangdong Kuaike Electronic to the shareholding in our Company (the "**Hongtai Series C Warrant**"). Shenzhen Hongtai assigned the Hongtai Series C Warrant to its non-wholly-owned subsidiary, Shanghai Chongyi. 970,396 Series C Preferred Share were issued by our Company to Shanghai Chongyi on May 31, 2021 pursuant to the full exercise of the Hongtai Series C Warrant by Shanghai Chongyi.

(7) Pursuant to the onshore series C round of financing of Guangdong Kuaike Electronic which was settled on April 1, 2019 and April 2, 2019, respectively, Bright Deshang subscribed for RMB45,893 and acquired RMB27,329 registered capital of Guangdong Kuaike Electronic, respectively. As part of the Reorganization, our Company issued, and Bright Deshang subscribed, a warrant to purchase 73,222 Series C Preferred Share to restore and align Bright Deshang's interests in Guangdong Kuaike Electronic to the shareholding in our Company (the "**Bright Deshang Warrant**"). Bright Deshang assigned the Bright Deshang Warrant to its wholly-owned subsidiary, Bright Desun Limited ("**Bright Desun**"). 73,222 Series C Preferred Shares were issued by our Company to Bright Desun on May 31, 2021 pursuant to the full exercise of the Bright Deshang Warrant by Bright Desun. Bright Desun subsequently transferred the 73,222 Series C Preferred Shares to Bright Desun II Limited, a wholly-owned subsidiary of Bright Desun on July 20, 2021.

(8) Pursuant to the onshore series C and Pre-D rounds of financing of Guangdong Kuaike Electronic which were settled on June 11, 2019 and December 10, 2019, respectively, Wuyue Tianxia subscribed for RMB1,086,329 and RMB69,340.15 registered capital of Guangdong Kuaike Electronic, respectively. As part of the Reorganization, our Company issued, and Wuyue Tianxia subscribed, a warrant to purchase 1,086,329 Series C Preferred Shares and 69,340 Series Pre-D Preferred Share to restore and align Wuyue Tianxia's interests in Guangdong Kuaike Electronic to the shareholding in our Company (the "**Wuyue Tianxia Warrant**"). Wuyue Tianxia assigned the Wuyue Tianxia Warrant to its non-wholly-owned subsidiary, Oriental Grow Limited ("**Oriental Grow**"). 1,086,329 Series C Preferred Share and 69,340 Series Pre-D Preferred Share were issued by our Company to Oriental Grow on May 31, 2021 pursuant to the full exercise of the Wuyue Tianxia Warrant by Oriental Grow.

(9) Pursuant to the onshore series D+ round of financing of Guangdong Kuaike Electronic which was settled on April 26, 2020, Shanghai Yiqian subscribed for RMB292,929.29 registered capital of Guangdong Kuaike Electronic. As part of the Reorganization, our Company issued, and Shanghai Yiqian subscribed for, a warrant to purchase 292,929 Series D Preferred Share to restore and align Shanghai Yiqian's interests in Guangdong Kuaike Electronic to the shareholding in our Company. 292,929 Series D Preferred Shares were issued by our Company to Shanghai Yiqian on May 31, 2021 pursuant to the full exercise of the warrant by Shanghai Yiqian. Shanghai Yiqian subsequently transferred 292,929 Series D Preferred Shares to Millennium Investment Global Limited ("**Millennium Investment**"), its then wholly owned subsidiary on September 8, 2021.

(10) Pursuant to the onshore series E round of financing of Guangdong Kuaike Electronic which was settled on April 26, 2020, Shenzhen Hongtai subscribed for RMB449,833 registered capital of Guangdong Kuaike Electronic. As part of the Reorganization, our Company issued, and Shenzhen Hongtai subscribed, a warrant to purchase 449,833 Series E Preferred Share to restore and align Shenzhen Hongtai's interests in Guangdong Kuaike Electronic to the shareholding in our Company (the "**Hongtai Series E Warrant**"). Shenzhen Hongtai assigned the Hongtai Series E Warrant to its affiliate, Shanghai Chongyi. 449,833 Series E Preferred Share were issued by our Company to Shanghai Chongyi on May 31, 2021 pursuant to the full exercise of the Hongtai Series E Warrant by Shanghai Chongyi.

(11) The conversion ratio of the number of Preferred Shares subscribed by, and issued to, the respective Onshore Restructuring Participants and/or their designated affiliates under the Restructuring Warrants to the amount of registered capital in Guangdong Kuaike Electronic held by the respective Onshore Restructuring Participants (prior to the Restructuring Capital Increase and the Onshore Capital Reduction) was one-to-one (subject to rounding adjustments).

The purchases of the Preferred Shares pursuant to the exercise of the Restructuring Warrants form part of the Reorganization. The considerations for the investments made by the relevant [**REDACTED**] Investors to Guangdong Kuaike Electronic had been irrevocably settled and received by our Group when such investments were initially made onshore as described in the sub-section headed "Our Corporate History and Major Shareholding Changes of Our Group" above. Accordingly, the exercise of the Restructuring Warrants and the corresponding settlement for and issuance of the Preferred Shares as described above only constitute the restructuring of existing [**REDACTED**] Investments, and did not constitute any new investment in our Group.

Shareholdings of the Onshore Restructuring Participants and their designated affiliates prior to Step 1 and after Step 4 of the Reorganization

The shareholdings of the Onshore Restructuring Participants and their designated affiliates in Guangdong Kuaike Electronic and our Company immediately prior to Step 1 of the Reorganization and after the completion of Step 4 of the Reorganization are set out as follows:

	Guangdong Kuaike Electronic		**Our Company**	
	Prior to Step 1 of the Reorganization (as at October 22, 2020)		**Upon completion of Step 4 of the Reorganization (as at May 31, 2021)[(2)]**	
Onshore Restructuring Participants/ their designated affiliates[(1)]	**Amount of registered capital**	**Shareholding percentage (%)**	**Number of shares[(3)]**	**Shareholding percentage (%)**
KK Brothers	1,556,585[(4)]	5.94%	7,465,348[(5)]	23.10%[(5)]
SCGC/ Red Earth	401,462	1.53%	401,462	1.24%
Bright Vision/ Bright Galaxy and Bright Galaxy II	373,900	1.43%	373,900	1.16%
Matrix/ Shanghai Weili	2,617,268	9.99%	2,617,268	8.10%
Redefine/eWTP	3,359,512	12.82%	3,439,215[(6)]	10.64%[(6)]
Bright Deshang/ Bright Desun Limited	73,222	0.28%	73,222	0.23%
Shenzhen Hongtai/ Shanghai Chongyi	1,420,229	5.42%	1,420,229	4.40%
Wuyue Tianxia/ Oriental Grow	1,155,669	4.41%	1,155,669	3.58%
Shanghai Yiqian Enterprise Management Consulting Partnership (Limited Partnership)	292,929	1.12%	292,929	0.91%

Notes:

1. For details of the assignment of the Restructuring Warrants by the Onshore Restructuring Participants to their designated affiliates, please refer to the notes under the subsection "— Exercise of Restructuring Warrants and Issuance of Preferred Shares" above.

2. The shareholding of our Company as at May 31, 2021 has taken into account the completion of Step 4 of the Reorganization and the series F and F+ rounds of financing of the Company which were completed during the period between October 22, 2020 and May 31, 2021.

3. The conversion ratio of the number of Preferred Shares subscribed by, and issued to, the respective Onshore Restructuring Participants and/or their designated affiliates under the Restructuring Warrants to the amount of registered capital in Guangdong Kuaike Electronic held by the respective Onshore Restructuring Participants (prior to the Step 1 of the Reorganization) was one-to-one (subject to rounding adjustments).

4. Representing the amount of registered capital in Guangdong Kuaike Electronic subscribed by KK Brothers in series Pre-D and series D rounds of financing of Guangdong Kuaike Electronic.

5. Taking into account the aggregate of (i) 1,124,309 Ordinary Shares; (ii) the Preferred Shares issued to KK Brothers pursuant to its exercise of the relevant Restructuring Warrants (including (a) 1,890,846 Series A Preferred Shares, 507,473 Series B Preferred Shares and 390,865 Series C Preferred Shares (from the Restructuring Warrants assigned by Shanghai Black Algae to KK Brothers); and (b) 482,187 Series Pre-D Preferred Shares and 1,074,397 Series D Preferred Shares (from the Restructuring Warrants of KK Brothers for its series Pre-D and series D rounds of investment)); (iii) 797,025 Series E Preferred Shares; and (iv) 1,198,246 Series F Preferred Shares held by KK Brothers as at May 31, 2021.

6. Taking into account the aggregate of (i) the Preferred Shares issued to eWTP pursuant to its exercise of the relevant Restructuring Warrants (i.e. 2,864,333 Series C Preferred Shares and 495,179 Series Pre-D Preferred Shares); and (ii) 79,703 Series E Preferred Shares held by eWTP as at May 31, 2021.

For the shareholding structure of our Company upon completion of the above restructuring step for restoration of shareholding interests in Guangdong Kuaike Electronic to our Company as of the Latest Practicable Date, see "– Capitalization of Our Company" below.

MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

Acquisitions of Joint Ventures and Non-Wholly Owned Subsidiaries

For the purpose of continuous upgrade and optimization of our Company's store network layout, our Company completed acquisitions of five joint ventures and fourteen non-wholly owned subsidiaries from four franchisees and fourteen minority shareholders respectively during the Track Record Period. Each of the joint ventures has been consolidated into our Group's financial statements prior to October 31, 2023, being the end of the Track Record Period. Such acquisitions have increased our equity interests in the relevant joint ventures and non-wholly owned subsidiaries from 50% and 51% respectively to 100%. As a result of such acquisitions, each of the relevant joint ventures and subsidiaries has became our wholly owned subsidiary, converting an aggregate of 175 franchise stores and 282 non-wholly owned stores into wholly owned stores of our Group.

The following tables set forth details of the acquisitions of joint ventures and non-wholly owned subsidiaries of our Group:

1. Acquisitions of Joint Ventures during Track Record Period

Equity interests acquired in the joint venture	Date of agreement	Transferor[4]	Number of stores acquired from the respective acquisition	Amount of consideration[1]	Settlement date of the consideration[2]	Principal business of the joint venture
1. 50% of equity interests in Wuhan Shengke Trading Co., Ltd. (武漢盛客商貿有限公司)[3]. .	October 18, 2022	Guangzhou Zhengke Trading Co., Ltd. (廣州正客商貿有限公司), an Independent Third Party	4 stores	RMB4.1 million	January 2023	Retail of lifestyle products
2. 50% of equity interests in Yunnan Yanyan Trading Co., Ltd. (雲南延延商貿有限公司)[3]. .	October 18, 2022	Kunming Gaosheng Commerce Partnership (Limited Partnership) (昆明高升商貿合夥企業(有限合夥)), an Independent Third Party	18 stores	RMB34.2 million	January 2023	Retail of lifestyle products
3. 50% of equity interests in Dongguan Xingkong Trading Co., Ltd. (東莞市星空貿易有限公司)[3].	October 20, 2022	Dongguan Yihao Equity Investment Partnership (Limited Partnership) (東莞市壹號股權投資合夥企業(有限合夥)), an Independent Third Party	122 stores	RMB220.0 million	November 2022	Retail of lifestyle products
4. 50% of equity interests in Wenzhou Benju Trading Co., Ltd. (溫州市本巨貿易有限公司)[3].	November 28, 2022	Wenzhou Yaner Trading Co., Ltd. (溫州市衍洱商貿有限公司), an Independent Third Party	17 stores	RMB4.8 million	January 2023	Retail of lifestyle products

Equity interests acquired in the joint venture	Date of agreement	Transferor[4]	Number of stores acquired from the respective acquisition	Amount of consideration[1]	Settlement date of the consideration[2]	Principal business of the joint venture
5. 50% of equity interests in Dongguan Youjia Commercial Management Co., Ltd. (東莞市優嘉商業管理有限公司)	February 16, 2023	Fang Shibo (方仕波), an Independent Third Party	14 stores	RMB11.8 million	June 2023	Retail of lifestyle products

Notes:

(1) The consideration was determined based on arm's length negotiation between the parties with reference to the following factors: (i) the number of retail stores set up under the particular target entity, (ii) the location, condition of decoration and the floor area of such retail stores, and (iii) the valuation report issued by an independent professional valuer. Taking into account the factors above and based on further commercial negotiation, the Company has entered into a number of supplemental agreements from March 1, 2023 to April 1, 2023 in relation to adjustments of consideration.

(2) The consideration has been paid in form of (i) cash; and/or (ii) set-off arrangement of outstanding loans or/and amounts due from franchisees. See "Business — Store Network Optimization Initiatives" for further details on consideration arrangement.

(3) As of the respective time of our acquisition of equity interests in the joint venture, none of the transferors retained any franchise stores subsequent to the above acquisitions.

(4) To the best knowledge of our Company, each of the transferors as set forth above is independent to each other.

As the highest applicable percentage ratio as defined under the Listing Rules in respect of each of the above acquisitions is less than 25%, the relevant pre-acquisition financial information of each of the above acquisitions is not required to be disclosed pursuant to Rule 4.05A of the Listing Rules.

2. Acquisitions of Additional Equity Interests in Non-wholly Owned Subsidiaries during Track Record Period

Additional interests acquired in non-wholly owned subsidiary	Date of agreement	Transferor[4]	Number of stores converted to wholly-owned stores from the respective acquisition	Amount of consideration[1]	Settlement date of the consideration[2]	Principal business of the subsidiary
1. 49% of equity interests in Beijing Quke Tongying Business Co., Ltd. (北京趣客通盈商務有限責任公司)[3]	October 17, 2022	Beijing Hanchuang Future Trading Co., Ltd. (北京瀚創未來商貿有限公司), an Independent Third Party (other than being a substantial shareholder of Beijing Quke Tongying Business Co., Ltd.)	36 stores	RMB20.2 million	May 2023	Retail of lifestyle products

Additional interests acquired in non-wholly owned subsidiary	Date of agreement	Transferor[(4)]	Number of stores converted to wholly-owned stores from the respective acquisition	Amount of consideration[(1)]	Settlement date of the consideration[(2)]	Principal business of the subsidiary
2. 49% of equity interests in Shantou Gaocai Anyi Trading Co., Ltd. (汕頭市高彩安易商貿有限公司)[(3)]	October 17, 2022	Shantou Gaocai Information Consultation Centre (汕頭市高彩信息諮詢中心), an Independent Third Party (other than being a substantial shareholder of Shantou Gaocai Anyi Trading Co., Ltd.)	25 stores	RMB5.1 million	January 2023	Retail of lifestyle products
3. 49% of equity interests in Hefei Siqingxiu Trading Co., Ltd. (合肥市思青秀商貿有限公司)[(3)]	October 18, 2022	Hefei Yishangjiapin Trading Co., Ltd. (合肥依尚佳品商貿有限公司), an Independent Third Party (other than being a substantial shareholder of Hefei Siqingxiu Trading Co., Ltd.)	9 stores	RMB7.1 million	January 2023	Retail of lifestyle products
4. 49% of equity interests in Shanxi Chuanghe Trading Co., Ltd. (山西創合貿易有限公司)[(3)] . .	October 19, 2022	Shanxi Yingxuan International Trade Co., Ltd. (山西穎璇國際貿易有限公司), an Independent Third Party (other than being a substantial shareholder of Shanxi Chuanghe Trading Co., Ltd.)	10 stores	RMB6.6 million	October 2022	Retail of lifestyle products
5. 49% of equity interests in Sichuan Yueshang Commercial Management Co., Ltd. (四川省悅商商業管理有限公司)[(3)]	October 20, 2022	Chengdu Shangwen Brand Management Co., Ltd. (成都商問品牌管理有限公司), an Independent Third Party (other than being a substantial shareholder of Sichuan Yueshang Commercial Management Co., Ltd.)	60 stores	RMB93.7 million	June 2023	Retail of lifestyle products
6. 49% of equity interests in Nanjing Zimayi Brand Management Co., Ltd. (南京紫螞蟻品牌管理有限公司)[(3)]	October 20, 2022	Shanghai Houyan Brand Management Co., Ltd. (上海後衍品牌管理有限公司), an Independent Third Party (other than being a substantial shareholder of Nanjing Zimayi Brand Management Co., Ltd. and Suzhou Purple Dolphin Brand Management Co., Ltd.)	1 store	RMB1.9 million	January 2023	Retail of lifestyle products

Additional interests acquired in non-wholly owned subsidiary	Date of agreement	Transferor[(4)]	Number of stores converted to wholly-owned stores from the respective acquisition	Amount of consideration[(1)]	Settlement date of the consideration[(2)]	Principal business of the subsidiary
7. 49% of equity interests in Suzhou Purple Dolphin Brand Management Co., Ltd. (蘇州紫海豚品牌管理有限公司)[(3)]	October 20, 2022	Shanghai Houyan Brand Management Co., Ltd. (上海後衍品牌管理有限公司), an Independent Third Party (other than being a substantial shareholder of Nanjing Zimayi Brand Management Co., Ltd. and Suzhou Purple Dolphin Brand Management Co., Ltd.)	51 stores	RMB46.0 million	January 2023	Retail of lifestyle products
8. 49% of equity interests in Beijing Juya Trading Co., Ltd. (北京巨牙商貿有限公司)[(3)]	October 21, 2022	Beijing Yibayijiu Kemao Co., Ltd. (北京壹捌壹玖科貿有限公司), an Independent Third Party (other than being a substantial shareholder of Beijing Juya Trading Co., Ltd.)	14 stores	RMB29.0 million	January 2023	Retail of lifestyle products
9. 49% of equity interests in Guangzhou Leming Commercial Management Co., Ltd. (廣州樂明商業管理有限公司)[(3)]	December 14, 2022	Mingle (Guangzhou) Investment Partnership (Limited Partnership) (明樂(廣州)投資合夥企業(有限合夥)), an Independent Third Party (other than being a substantial shareholder of Guangzhou Leming Commercial Management Co., Ltd.)	11 stores	RMB8.8 million	January 2023	Retail of lifestyle products
10. 49% of equity interests in Hunan Yize Trading Co., Ltd. (湖南熠澤商貿有限責任公司)[(3)]	December 26, 2022	Changsha Baiyu Trading Co., Ltd. (長沙市柏榆商貿有限公司), an Independent Third Party (other than being a substantial shareholder of Hunan Yize Trading Co., Ltd.)	34 stores	RMB69.3 million	July 2023	Retail of lifestyle products
11. 49% of equity interests in Xinjiang Qianyufei Commercial Management Co., Ltd. (新疆倩雨飛商業管理有限責任公司)	February 10, 2023	Xinjiang Qianyufei Commercial Trading Co., Ltd. (新疆倩雨飛商貿有限公司) (other than being a substantial shareholder of Xinjiang Qianyufei Commercial Management Co., Ltd.)	18 stores	RMB38.6 million	June 2023	Retail of lifestyle products

Additional interests acquired in non-wholly owned subsidiary	Date of agreement	Transferor[(4)]	Number of stores converted to wholly-owned stores from the respective acquisition	Amount of consideration[(1)]	Settlement date of the consideration[(2)]	Principal business of the subsidiary
12. 49% of equity interests in Wuhan Xinkuaimaoke Trading Co., Ltd. (武漢新快貓客商貿有限公司) .	February 10, 2023	Wuhan Kuaikuaimao Commercial Management Co., Ltd. (武漢市快快貓商業管理有限公司) (other than being a substantial shareholder of Wuhan Xinkuaimaoke Trading Co., Ltd.)	7 stores	RMB11.2 million	April 2023	Retail of lifestyle products
13. 49% of equity interests in Dongguan Fuli Trading Co., Ltd. (東莞市賦麗貿易有限公司) . .	June 29, 2023	Liu Lequan (劉樂全) and Dongguan Qianying Commerce Management Partnership (Limited Partnership) (東莞市千盈商業管理合夥企業(普通合夥)), each an Independent Third Party (other than being a substantial shareholder of Dongguan Fuli Trading Co., Ltd.)	1 store	RMB7.8 million	August 2023	Retail of lifestyle products
14. 49% of equity interests in Dongguan Lishi Trading Co., Ltd. (東莞市麗詩商貿有限公司) . .	June 29, 2023	Shenzhen Difang Commerce Management Partnership (Limited Partnership) (深圳市蒂芳商業管理合夥企業(有限合夥)), an Independent Third Party (other than being a substantial shareholder of Dongguan Lishi Trading Co., Ltd.)	5 stores	RMB11.5 million	October 2023	Retail of lifestyle products

Notes:

(1) The consideration was determined based on arm's length negotiation between the parties with reference to the following factors: (i) the number of retail stores set up under the particular target entity, (ii) the location, condition of decoration and the floor area of such retail stores, and (iii) the valuation report issued by an independent professional valuer. Taking into accounts the factors above and based on further commercial negotiation, the Company has entered into a number of supplemental agreements from April 1, 2023 to August 1, 2023 in relation to adjustments of consideration.

(2) The consideration has been paid in form of (i) cash; and/or (ii) set-off arrangement of outstanding loans or/and amounts due from franchisees. See "Business — Store Network Optimization Initiatives" for further details on consideration arrangement.

(3) As of the respective time of our acquisition of remaining equity interests in the non-wholly owned subsidiaries, none of the transferors retained any franchise stores subsequent to the above acquisitions.

(4) To the best knowledge of our Company, each of the transferors as set forth above is independent to each other.

For further details of the above acquisitions, see "– Our Shareholding and Corporate Structure" below and "Business – Store Network Optimization Initiatives".

Disposal of KK Guan E-mall

We started to explore online sales business prior to 2020 through, among others, KK Guan E-mall, an early pilot program with an e-commerce platform. On May 18, 2020, to focus on expanding our nationwide store network, Guangdong Kuaike Electronic entered into an agreement with Guangdong Tengke Internet Technology Co., Ltd ("**Guangdong Tengke**", an Independent Third Party) pursuant to which Guangdong Kuaike Electronic agreed to transfer the related software and mini program of KK Guan E-mall to Guangdong Tengke, and as consideration for the transfer, Guangdong Tengke would (i) bear the unused top up amount paid by the registered users of KK Guan E-mall prior to the transfer, representing RMB515,823.46; and (ii) continue to provide services to the registered users of KK Guan E-mall in the same manner upon completion of the transfer. No separate cash consideration was paid for the transfer. See "Business – Online Sales" for further details.

Our Operation in Indonesia

On July 1, 2022, we entered into an agreement with PT KKV Investama Indonesia (an Independent Third Party), pursuant to which we agreed to transfer 80% of equity interests in PT KKV Retail Indonesia to PT KKV Investama Indonesia at an aggregate consideration of RMB36.5 million. The consideration was determined with reference to (i) our trade receivables from the KKV stores in Indonesia, (ii) operational related expenses incurred by these stores, and (iii) our shares in PT KKV Retail Indonesia and our investment in the KKV stores in Indonesia.

PT KKV Investama Indonesia is a local Indonesian trading company which primarily engages in merchandise wholesale. The transaction was mainly driven by Indonesia's changing macroeconomic policies which discourage ownership of retail business by foreign investors. See "Business – Our Retail Brands – KKV – KKV Stores in Indonesia" for further details.

Saved as disclosed in this subsection and the subsection headed "Reorganization" above, we have not conducted any acquisitions, disposals or mergers during the Track Record Period that we consider material to us.

SHARE SUBDIVISION

On [●], our Company [has implemented] the Share Subdivision whereby each existing issued and unissued share capital with par value of US$0.0001 in the authorized share capital of our Company [were] subdivided and reclassified into 25 ordinary Shares with par value of US$0.000004 each and the authorized share capital of our Company [was] altered to US$50,000 divided into 12,500,000,000 Shares with par value of US$0.000004 each. The total number of issued Shares in our Company [increased] from [34,814,658] Shares to [870,366,450] Shares.

CAPITALIZATION OF OUR COMPANY

The below table is a summary of the capitalization of our Company as of the Latest Practicable Date and as of the [**REDACTED**]:

		Preferred Shares								As of the Latest Practicable Date[2]		As of the [REDACTED][3]	
Shareholders[1]	**Ordinary Shares**	**Series Seed**	**Series A**	**Series B**	**Series C**	**Series Pre-D**	**Series D**	**Series E**	**Series F**	**Aggregate number of Shares**	**Ownership percentage**	**Aggregate number of Shares**	**Ownership percentage**
MOGR	8,356,312	–	–	–	–	–	–	–	–	8,356,312	24.0023%	[REDACTED]	[REDACTED]
Starlight	1,526,347	–	–	–	–	–	–	–	–	1,526,347	4.3842%	[REDACTED]	[REDACTED]
KK Brothers	1,124,309	–	1,890,846	507,473	390,865	482,187	1,074,397	797,025	1,042,474	7,309,576	20.9957%	[REDACTED]	[REDACTED]
Red Earth	–	401,462	–	–	–	–	–	–	–	401,462	1.1531%	[REDACTED]	[REDACTED]
Bright Galaxy	–	–	7,498	52,804	56,413	–	–	–	–	116,715	0.3352%	[REDACTED]	[REDACTED]
Bright Galaxy II Limited	–	–	16,523	116,354	124,308	–	–	–	–	257,185	0.7387%	[REDACTED]	[REDACTED]
Shanghai Weili	–	–	–	1,691,578	275,684	340,096	253,681	56,229	–	2,617,268	7.5177%	[REDACTED]	[REDACTED]
eWTP	–	–	–	–	2,864,333	495,179	–	79,703	–	3,439,215	9.8786%	[REDACTED]	[REDACTED]
Bright Desun II Limited	–	–	–	–	73,222	–	–	–	–	73,222	0.2103%	[REDACTED]	[REDACTED]
Shanghai Chongyi	–	–	–	–	970,396	–	–	449,833	–	1,420,229	4.0794%	[REDACTED]	[REDACTED]
Oriental Grow	–	–	–	–	1,086,329	69,340	–	–	–	1,155,669	3.3195%	[REDACTED]	[REDACTED]
X Adventure	–	–	–	–	–	–	83,694	–	–	83,694	0.2404%	[REDACTED]	[REDACTED]
N5Capital	–	–	–	–	–	–	124,851	–	–	124,851	0.3586%	[REDACTED]	[REDACTED]
Millennium Investment	–	–	–	–	–	–	292,929	–	–	292,929	0.8414%	[REDACTED]	[REDACTED]
CMC Krypton	–	–	–	–	–	–	–	2,191,819	–	2,191,819	6.2957%	[REDACTED]	[REDACTED]
INCE Capital	–	–	–	–	–	–	–	398,513	119,825	518,338	1.4888%	[REDACTED]	[REDACTED]
Lighthouse Capital International Inc.	–	–	–	–	–	–	–	31,881	–	31,881	0.0916%	[REDACTED]	[REDACTED]
Lighthousecap Fellow	–	–	–	–	–	–	–	7,970	–	7,970	0.0229%	[REDACTED]	[REDACTED]
Lighthousecap International	–	–	–	–	–	–	–	39,851	–	39,851	0.1145%	[REDACTED]	[REDACTED]
Harvest International	–	–	–	–	–	–	–	–	119,825	119,825	0.3442%	[REDACTED]	[REDACTED]
Kamet Thrive 3 Limited	–	–	–	–	–	–	–	–	119,825	119,825	0.3442%	[REDACTED]	[REDACTED]
Shanghai Yukuang	–	–	–	–	–	–	–	–	599,123	599,123	1.7209%	[REDACTED]	[REDACTED]

		Preferred Shares								As of the Latest Practicable Date[(2)]		As of the [REDACTED][(3)]	
Shareholders[(1)]	**Ordinary Shares**	**Series Seed**	**Series A**	**Series B**	**Series C**	**Series Pre-D**	**Series D**	**Series E**	**Series F**	**Aggregate number of Shares**	**Ownership percentage**	**Aggregate number of Shares**	**Ownership percentage**
Guolian Securities	–	–	–	–	–	–	–	–	119,825	119,825	0.3442%	[REDACTED]	[REDACTED]
CMC II	–	–	–	–	–	–	–	–	179,737	179,737	0.5163%	[REDACTED]	[REDACTED]
ZUIKAKU CO., LIMITED	–	–	–	–	–	–	–	–	59,912	59,912	0.1721%	[REDACTED]	[REDACTED]
JD Angara	–	–	–	–	–	–	–	–	479,298	479,298	1.3767%	[REDACTED]	[REDACTED]
Pluto Connection Limited	–	–	–	–	–	–	–	–	179,737	179,737	0.5163%	[REDACTED]	[REDACTED]
CMBC International Holdings Limited	–	–	–	–	–	–	–	–	59,912	59,912	0.1721%	[REDACTED]	[REDACTED]
STARWIN FUND SPC – SUNRISE FUND SP	–	–	–	–	–	–	–	–	35,947	35,947	0.1033%	[REDACTED]	[REDACTED]
Redview Capital	–	–	–	–	–	–	–	–	239,649	239,649	0.6884%	[REDACTED]	[REDACTED]
RSU Nominee[(4)]	2,657,335	–	–	–	–	–	–	–	–	2,657,335	7.6325%	[REDACTED]	[REDACTED]
Other public Shareholders	–	–	–	–	–	–	–	–	–	–	–	[REDACTED]	[REDACTED]
Total	**13,664,303**	**401,462**	**1,914,867**	**2,368,209**	**5,841,550**	**1,386,802**	**1,829,552**	**4,052,824**	**3,355,089**	**34,814,658**	**100.0000%**	[REDACTED]	[REDACTED]

Notes:

1. For more information of these Shareholders, see the subsection headed "– [**REDACTED**] Investments – 5. Information of our Shareholders and [**REDACTED**] Investors" below.

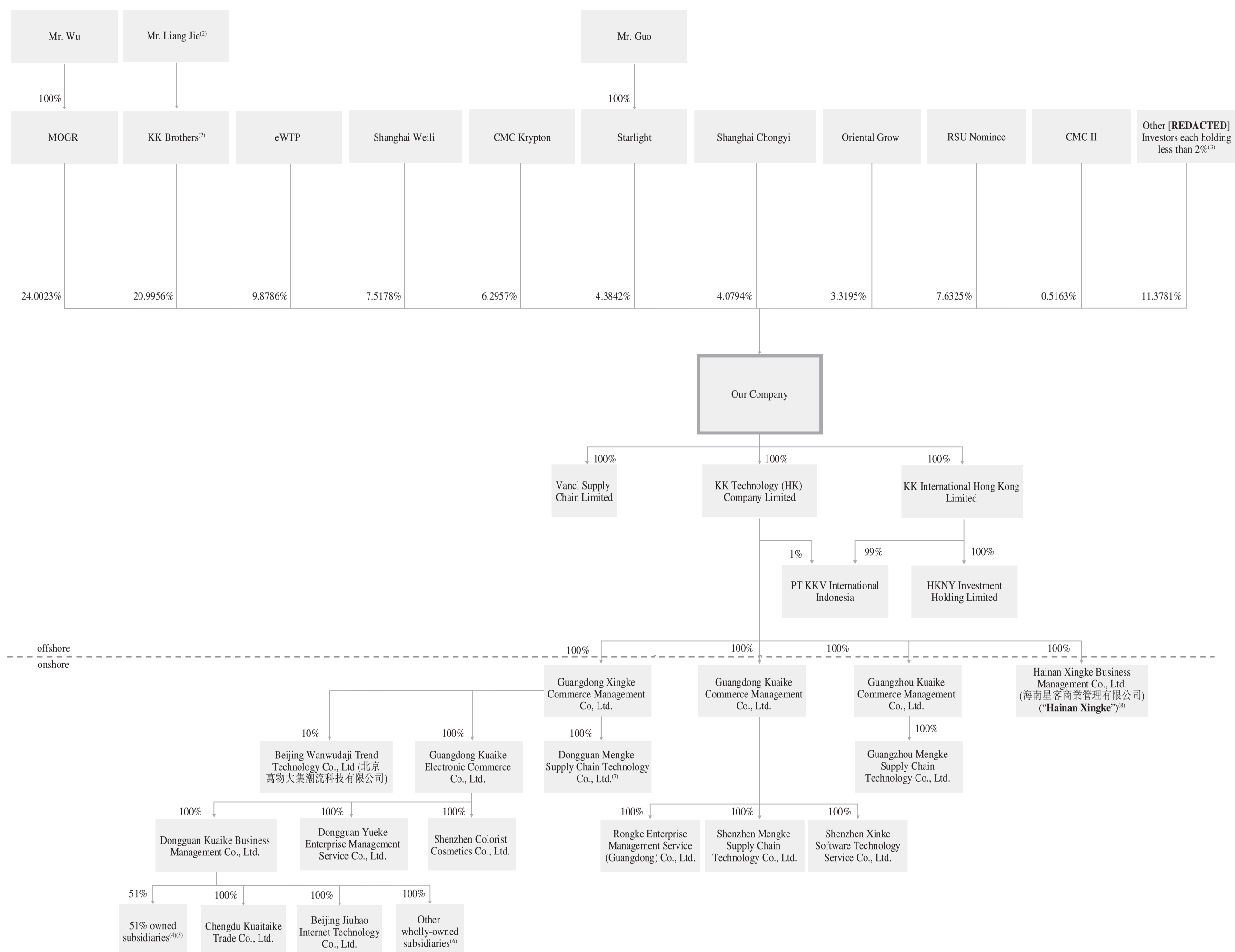
2. Under the terms of the Preferred Shares, all Preferred Shares will automatically be converted into an equal number of Shares on a one-to-one basis on the [**REDACTED**].

3. Calculated after taking into account the Shares to be issued pursuant to the [**REDACTED**], assuming that Share Subdivision has been completed, and the [**REDACTED**] is not exercised.

4. As of the Latest Practicable Date, no RSUs have been granted by our Company.

OUR SHAREHOLDING AND CORPORATE STRUCTURE

Set out below is a summary of the corporate structure of our Company immediately prior to the completion of the [**REDACTED**][1]:



Notes:

(1) See "[**REDACTED**] Investments – 5. Information of our Shareholders and [**REDACTED**] Investors" in this section for details of our Shareholders.

(2) KK Brothers is a limited liability company incorporated in Hong Kong and is wholly owned by Diligent Shine Inc., which is in turn wholly owned by Verticillata Inc. Both Diligent Shine Inc. and Verticillata Inc. are limited companies incorporated in the British Virgin Islands. Verticillata Inc. is held as to 100% by TMF (Cayman) Ltd, the trustee of the Liang Family Trust. Liang Family Trust is a trust established by Mr. Liang Jie (梁捷), a non-executive Director, for the benefit of himself and his family.

(3) Other [**REDACTED**] Investors each holding less than 2% refer to:

(i) Bright Galaxy II Limited (0.7388%);

(ii) Bright Galaxy (0.3352%);

(iii) Millennium Investment (0.8414%);

(iv) N5Capital (0.3586%);

(v) X Adventure (0.2404%);

(vi) Bright Desun II Limited (0.2103%);

(vii) Lighthousecap International (0.1145%);

(viii) Lighthouse Capital International Inc. (0.0916%);

(ix) Lighthousecap Fellow (0.0229%);

(x) Red Earth (1.1531%);

(xi) INCE Capital (1.4889%);

(xii) Kamet Thrive 3 Limited (0.3442%);

(xiii) Harvest International (0.3442%);

(xiv) ZUIKAKU CO., LIMITED (0.1721%);

(xv) Guolian Securities (0.3442%);

(xvi) Shanghai Yukuang (1.7209%);

(xvii) JD Angara (1.3767%);

(xviii) CMBC International Holdings Limited (0.1721%);

(xix) STARWIN FUND SPC – SUNRISE FUND SP (0.1033%);

(xx) Pluto Connection Limited (0.5163%); and

(xxi) Redview Capital (0.6884%).

For further details, please refer to the subsection headed "[**REDACTED**] Investments – 5. Information of our Shareholders and [**REDACTED**] Investors" in this section.

(4) The 51% owned subsidiaries of Dongguan Kuaike Business Management Co., Ltd. include:

(i) Kuaimaike (Chengdu) Commercial Management Co., Ltd. (快麥客(成都)商業管理有限公司);

(ii) Henan Kuaizhishao Trading Co., Ltd. (河南快之劭商貿有限公司);

(iii) Fuyang Guoguang Trading Co., Ltd. (阜陽市國廣商貿有限公司);

(iv) Shanghai Yuekezhidao Commercial Management Co., Ltd. (上海悅客之道商業管理有限公司);

(v) Suzhou Yaner Commercial Management Co., Ltd. (蘇州燕洱商業管理有限公司);

(vi) Sichuan Yuesheng Commercial Management Co., Ltd. (四川省悅勝商業管理有限公司); and

(vii) Urumqi Ruike Business Commercial Management Co., Ltd. (烏魯木齊瑞客商業管理有限公司).

Our Group has entered into equity transfer agreements to acquire additional interests in Dongguan Fuli Trade Co., Ltd. and Dongguan Lishi Commercial Trading Co., Ltd. respectively, pending completion of relevant business registration procedures. For further details, please see subsection headed "Major Acquisitions, Disposals and Mergers — Acquisitions of Joint Ventures and Non-Wholly Owned Subsidiaries" above.

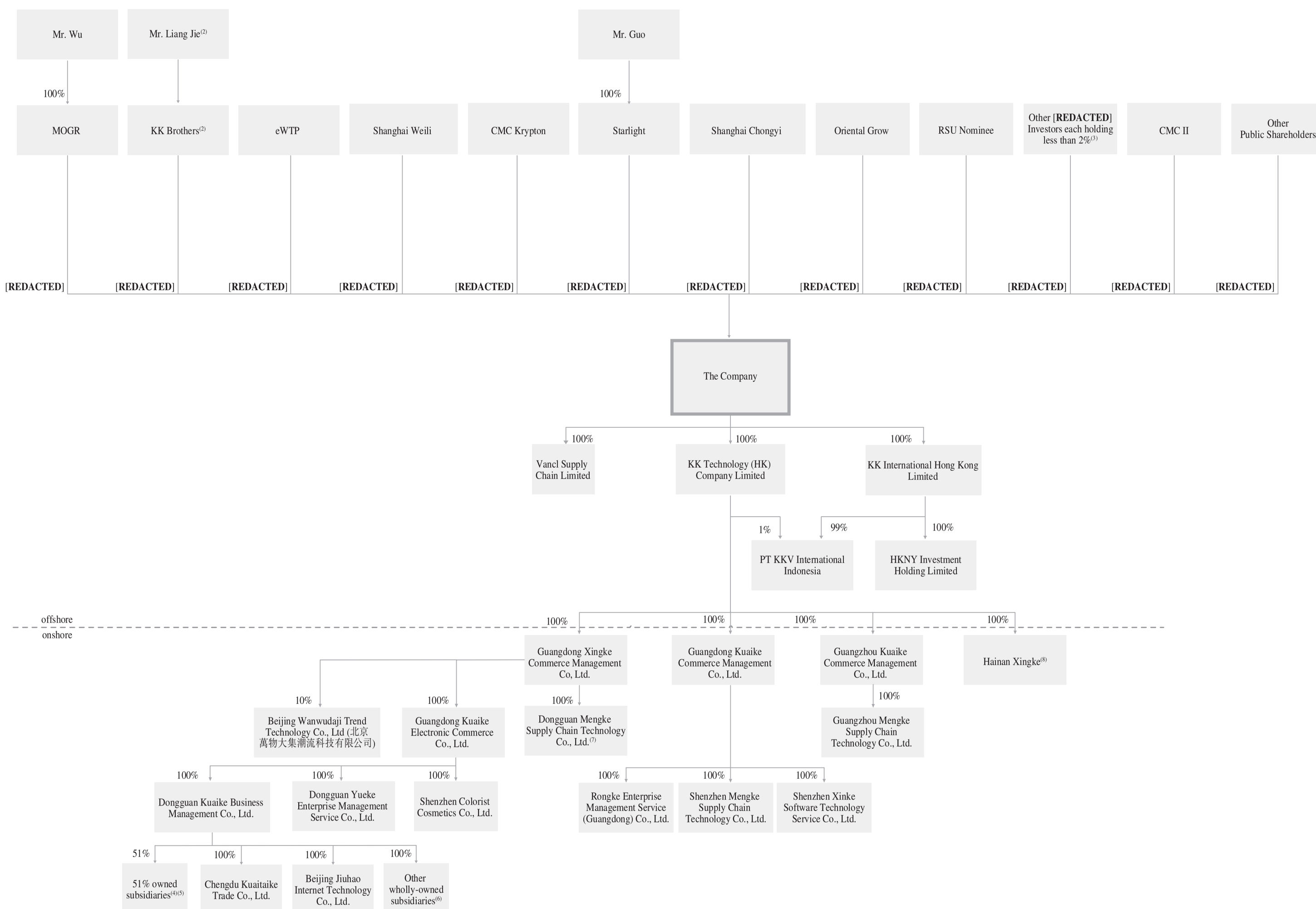
(5) For details of the non-Group shareholders of the non-wholly owned subsidiaries, please refer to "Appendix IV – Statutory and General Information – 6. Particulars of Our Subsidiaries." To the best of our knowledge, information and belief, having made all reasonable enquiries, none of the other minority shareholders was a connected person of our Company as of the Latest Practicable Date (other than being substantial shareholders of our subsidiaries).

(6) To complement with our business strategies in exerting more comprehensive control and management on our self-owned stores compared with franchise stores, gaining direct access to first-hand insight on the market and customers, and thus resulting in enhanced competitive edges, we completed the acquisitions of four joint ventures and ten non-wholly owned subsidiaries from four franchisees and nine minority shareholders respectively during the Track Record Period. Subsequent to such acquisitions, each of the relevant joint ventures and subsidiaries has became our wholly owned subsidiary. For details on the acquisitions of joint ventures and non-wholly owned subsidiaries during Track Record Period, see subsection headed "Major Acquisitions, Disposals and Mergers — Acquisitions of Joint Ventures and Non-Wholly Owned Subsidiaries" above. As of the Latest Practicable Date, other than Chengdu Kuaitaike Trade Co., Ltd. (成都快泰客貿易有限公司) and Beijing Jiuhao Internet Technology Co., Ltd. (北京玖號互聯網科技有限公司), the wholly-owned subsidiaries of Dongguan Kuaike Business Management Co., Ltd. include Wuhan Shengke Trading Co., Ltd. (武漢盛客商貿有限公司), Yunnan Yanyan Trading Co., Ltd. (雲南延延商貿有限公司), Dongguan Xingkong Trading Co., Ltd. (東莞市星空貿易有限公司), Wenzhou Benju Trading Co., Ltd. (溫州市本巨貿易有限公司), Dongguan Youjia Commercial Management Co., Ltd. (東莞市優嘉商業管理有限公司), Beijing Quke Tongying Business Co., Ltd. (北京趣客通盈商務有限責任公司), Shantou Gaocai Anyi Trading Co., Ltd. (汕頭市高彩安易商貿有限公司), Hefei Siqingxiu Trading Co., Ltd. (合肥市思青秀商貿有限公司), Shanxi Chuanghe Trading Co., Ltd. (山西創合貿易有限公司), Sichuan Yueshang Commercial Management Co., Ltd. (四川省悦商商業管理有限公司), Nanjing Zimayi Brand Management Co., Ltd. (南京紫螞蟻品牌管理有限公司), Suzhou Purple Dolphin Brand Management Co., Ltd. (蘇州紫海豚品牌管理有限公司), Beijing Juya Trading Co., Ltd. (北京巨牙商貿有限公司), Guangzhou Leming Commercial Management Co., Ltd. (廣州樂明商業管理有限公司), Hunan Yize Trading Co., Ltd. (湖南熠澤商貿有限責任公司), Xinjiang Qianyufei Commercial Management Co., Ltd. (新疆倩雨飛商業管理有限公司), Wuhan Xinkuaimaoke Trading Co., Ltd. (武漢新快貓客商貿有限公司), Beijing Kuaikuaike Commercial Management Co., Ltd. (北京快快客商業管理有限公司), Dongguan Fuli Trade Co., Ltd. (東莞市賦麗貿易有限公司), Dongguan Lishi Commercial Trading Co., Ltd. (東莞市麗詩商貿有限公司) and Fuzhou Kuaike Business Management Co., Ltd. (福州快客商業管理有限公司).

(7) Dongguan Mengke Supply Chain Technology Co., Ltd. is a company established under limited liability under the laws of the PRC in September 2023.

(8) Hainan Xingke is a company established with limited liability under the laws of the PRC in July 2023 with a view to, among others, better utilizing favourable business policies in Hainan province and capturing future overseas business expansion opportunities when appropriate. As of the Latest Practicable Date, Hainan Xingke had no actual business operation.

The following chart sets forth our Group's corporate and shareholding structure upon completion of the Share Subdivision and the [**REDACTED**] (assuming the [**REDACTED**] is not exercised)[(1)]:



Note:

(1) See "[**REDACTED**] Investments – 5. Information of our Shareholders and [**REDACTED**] Investors" in this section for details of our Shareholders.

(2) KK Brothers is a limited liability company incorporated in Hong Kong and is wholly owned by Diligent Shine Inc., which is in turn wholly owned by Verticillata Inc.. Both Diligent Shine Inc. and Verticillata Inc. are limited companies incorporated in the British Virgin Islands. Verticillata Inc. is held as to 100% by TMF (Cayman) Ltd, the trustee of the Liang Family Trust. Liang Family Trust is a trust established by Mr. Liang Jie (梁捷), a non-executive Director, for the benefit of himself and his family.

(3) Other [**REDACTED**] Investors each holding less than 2% refer to:

[**REDACTED**]

For further details, please refer to the subsection headed "[**REDACTED**] Investments – 5. Information of our Shareholders and [**REDACTED**] Investors" in this section.

(4) Please see Note (4) to the corporate structure chart of our Company immediately prior to the completion of the [**REDACTED**] above.

(5) Please see Note (5) to the corporate structure chart of our Company immediately prior to the completion of the [**REDACTED**] above.

(6) Please see Note (6) to the corporate structure chart of our Company immediately prior to the completion of the [**REDACTED**] above.

(7) Please see Note (7) to the corporate structure chart of our Company immediately prior to the completion of the [**REDACTED**] above.

(8) Please see Note (8) to the corporate structure chart of our Company immediately prior to the completion of the [**REDACTED**] above.

[**REDACTED**] INVESTMENTS

1. Overview

We underwent 13 rounds of [**REDACTED**] Investments. The basis of determination for the consideration for the [**REDACTED**] Investments were arm's length negotiations between our Company and the respective [**REDACTED**] Investors after taking into consideration the timing of the investments, our valuation and the status of our business operations and financial performance of our Group at the relevant time.

In connection with the [**REDACTED**] Investments, the [**REDACTED**] Investors became parties to the shareholders' agreement at the time of their relevant investment.

2. Principal Terms of the [REDACTED] Investments

The below summarizes the principal terms of the **[REDACTED]** Investments:

	Series Seed	Series A	Series B	Series B+	Series C	Series C+	Series Pre-D	Series D	Series D+	Series E	Series F	Series F+	Series F++
Date of initial share purchase agreement	March 3, 2016	July 11, 2017	March 29, 2018	September 13, 2018	March 9, 2019	May 10, 2019	November 17, 2019	November 22, 2019	March 24, 2020	July 10, 2020, September 27, 2020	March 30, 2021	May 28, 2021	June 4, 2021
Date on which investment was fully settled	March 23, 2016 to April 1, 2016(1)	July 20, 2017 to August 4, 2017(1)	April 2, 2018 to April 11, 2018(1)	September 26, 2018(1)	April 1, 2019 to October 30, 2019(1)	June 11, 2019 to June 14, 2019(1)	December 2, 2019 to January 2, 2020(1)	December 2, 2019 to December 26, 2019(1)	April 3, 2020 to April 26, 2020(1)	July 14, 2020 to October 22, 2020(1)	April 1, 2021 to June 7, 2021	May 31, 2021 to June 3, 2021	June 8, 2021
Valuation of each round of investment	RMB100,000,000	RMB300,000,000	RMB500,000,000	RMB500,000,000	RMB1,325,790,888	RMB1,407,892,567	RMB3,150,000,000	RMB4,284,000,000	RMB4,333,000,000	RMB4,716,745,000	Approximately USD2.9 billion(2)	Approximately USD2.9 billion(2)	Approximately USD2.9 billion(2)
Approximate costs per Preferred Share paid(3)	RMB0.4982	RMB0.9713	RMB1.4442	RMB1.4442	RMB1.8344	RMB1.8344	RMB5.4514	RMB5.9549	RMB5.9549	USD1.0036/ RMB7.1113	USD3.3382	USD3.3382	USD3.3382
Discount to the [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Lock-Up Period	Each **[REDACTED]** Investor agrees, if so required by the **[REDACTED]**, that it will not during the period commencing on the date of this document and ending on the date specified by our Company and the **[REDACTED]** (such period not to exceed one hundred eighty (180) days from the date of this document) (i) lend, offer, pledge, hypothecate, hedge, sell, make any short sale of, loan, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any equity securities of our Company (other than those included in such **[REDACTED]**) or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the equity securities of our Company, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of equity securities of our Company or such other securities, in cash or otherwise.												

	Series Seed	Series A	Series B	Series B+	Series C	Series C+	Series Pre-D	Series D	Series D+	Series E	Series F	Series F+	Series F++
Basis of determining the consideration paid	The consideration for the [REDACTED] investments were determined based on arm's length negotiations between the Company and the [REDACTED] Investors, taking into account the timing of the investments and the respective business operations and financial performance of our Group.												
Use of proceeds from the [REDACTED] investments	We utilized the proceeds for the development and operation of our business, including but not limited to, personnel recruitment, business and product investments, operation and development, technology infrastructure, office utilities and marketing. As of the Latest Practicable Date, approximately 78% of the funds raised from the [REDACTED] Investments have been utilized.												
Strategic benefits the [REDACTED] Investors brought to our Company:	At the respective time of the [REDACTED] Investments by the [REDACTED] Investors, our Directors were of the view that our Company could benefit from the additional capital that would be provided by the [REDACTED] Investments in our Company and the [REDACTED] Investors' knowledge and experience. Our [REDACTED] Investors include renowned companies in relevant industries, which can help us achieve business synergies, and professional institutional investors, which can provide us with professional advice on our Group's development and improve our corporate governance, financial reporting and internal control. Moreover, our Directors were also of the view that our Company could benefit from the [REDACTED] Investments as the [REDACTED] Investors' investments demonstrated their confidence in the operations of our Company and served as an endorsement of our Company's performance, strengths and prospects.												

Notes:

(1) As disclosed in the subsection "Reorganization" above, the considerations for the investment made by the relevant [REDACTED] Investors to Guangdong Kuaike Electronic had been irrevocably settled and received by our Group when such investments were initially made onshore as described in the section "Our Corporate History and Major Shareholding Changes of Our Group" above. Issuance of the Preferred Shares pursuant to the exercise of the Restructuring Warrants (which were settled between May 28, 2021 to July 27, 2021) by the relevant investors as described in the subsection "Reorganization" above are for the sole purpose of a restructuring of existing [REDACTED] Investments, and did not constitute any new investment in our Group.

(2) The valuation figures equal the total consideration paid by the relevant [REDACTED] Investor(s) in that round of financing divided by the shareholding percentage of them immediately following their investment.

(3) Cost per Share paid calculated by dividing the total consideration paid by the total number of Shares held following the Share Subdivision and the conversion of the relevant Preferred Shares to Shares in relation to each series of the [REDACTED] Investments.

(4) The discount to the [REDACTED] is calculated based on the assumption that the [REDACTED] is HK$[REDACTED] per Share (being the mid-point of the indicative [REDACTED] range of HK$[REDACTED] to HK$[REDACTED]).

(5) Represents a premium to the [REDACTED] of [REDACTED]% per [REDACTED], calculated based on the assumption that the [REDACTED] is HK$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] range of HK$[REDACTED] to HK$[REDACTED].

3. Special Rights of the [REDACTED] Investors

The [**REDACTED**] Investors were granted certain customary special rights according to the relevant shareholders agreement including, among others, redemption rights, information rights, pre-emptive rights, right to nominate Director(s) and veto rights. Pursuant to the relevant shareholders' resolution, such special rights shall be terminated upon submission of a [**REDACTED**] and/or will be terminated upon the [**REDACTED**], in compliance with Chapter 4.2 under the Guide for New Listing Applicants published by the Stock Exchange effective from January 1, 2024.

4. Public Float

Upon completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised), (i) MOGR (an investment holding company wholly-owned by Mr. Wu, our Founder, the chairman of our Board and an executive Director); (ii) Starlight (an investment holding company wholly-owned by Mr. Guo, an executive Director); (iii) KK Brothers (a substantial Shareholder beneficially owned by Mr. Liang Jie, a non-executive Director); and (iv) KK Evergreen Holdings Co., Ltd (the RSU nominee holding the underlying Shares under the RSU Scheme), will hold approximately [**REDACTED**]%, [**REDACTED**]%, [**REDACTED**]% and [**REDACTED**]% of our enlarged issued share capital, respectively, and such Shares will not be counted towards the public float of our Company for the purpose of Rule 8.08 of the Listing Rules.

To the best of the Company's knowledge and belief, save as disclosed above, no other Shareholder (including the [**REDACTED**] Investors) (i) is a core connected person of our Company (as defined under the Listing Rules); (ii) has been financed directly or indirectly by a core connected person of our Company for the subscription of Shares; or (iii) is accustomed to take instructions from a core connected person of our Company in relation to the acquisition, disposal, voting or other dispositions of the Shares registered in his/her/its name or otherwise held by him/her/it, and all the Shares held by such Shareholders will be counted towards the public float of our Company for the purpose of Rule 8.08 of the Listing Rules upon the [**REDACTED**]. Accordingly, it is expected that no less than 25% of the Shares will be held by the public upon completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised), and our Company will be able to fulfill the minimum public float requirement under Rule 8.08 of the Listing Rules.

5. Information of our Shareholders and [REDACTED] Investors

The background information of our Shareholders (including our [**REDACTED**] Investors) is set out below.

MOGR and Starlight

MOGR is a limited liability company incorporated in the British Virgin Islands and was owned as to 100% by Mr. Wu, our Founder, an executive Director and our chief executive officer.

Starlight is a limited liability company incorporated in the British Virgin Islands, which is owned as to 100% by Mr. Guo, an executive Director.

For more details of, among others, the concert party arrangements amongst Mr. Wu, Mr. Guo, MOGR and Starlight, please refer to the section headed "Relationship with the Single Largest Shareholders Group" in this document.

KK Brothers and Shanghai Black Algae

KK Brothers is a limited liability company incorporated in Hong Kong and is wholly owned by Diligent Shine Inc., which is in turn wholly owned by Verticillata Inc. Both Diligent Shine Inc. and Verticillata Inc. are limited companies incorporated in the British Virgin Islands. Verticillata Inc. is held as to 100% by TMF (Cayman) Ltd, the trustee of the Liang Family Trust. Liang Family Trust is a trust established by Mr. Liang Jie (梁捷), a non-executive Director, for the benefit of himself and his family.

Shanghai Black Algae is a limited partnership registered in the PRC, whose general partner is Ms. Shen Huashan, the spouse of Mr. Liang Jie, a non-executive Director, and whose sole limited partner is Mr. Liang Jie. Shanghai Black Algae is owned as to 90% by Mr. Liang Jie and 10% by Ms. Shen Huashan.

eWTP and Redefine

eWTP is a limited partnership registered in the Cayman Islands, whose general partner is Redefine Capital Management Company Limited, a limited liability company which is wholly owned by MF New World Investment Limited. MF New World Investment Limited is owned as to 100% by Mr. Yu Yongfu (俞永福), an Independent Third Party. eWTP has four limited partners and only two hold over 30% of the entire equity interest therein, namely Alibaba.com Singapore E-commerce Private Limited, which holds approximately 54.17% of the entire equity interest therein, and RD Glocal Fund L.P., which holds approximately 33.33% of the entire equity interest therein. Redefine is owned as to 100% by eWTP and is an Independent Third Party.

CMC Krypton and CMC II

CMC Krypton and CMC II is each a limited liability company incorporated in the Cayman Islands, and is owned as to 100% by CMC Krypton, L.P. and CMC Krypton II, L.P., respectively. Each of CMC Krypton, L.P. and CMC Krypton II, L.P. is 100% owned by their sole limited partner CMC Capital Partners III, L.P. The general partner of each of CMC Krypton, L.P. and CMC Krypton II, L.P. is CMC Krypton GP, L.P., a limited partnership registered in the Cayman Islands whose general partner is CMC Capital Partners GP III, Ltd. CMC Capital Partners GP III, Ltd. is wholly owned by LaConfiance Investments Ltd., which in turn is wholly owned by LeBonheur Holdings Ltd., which is in turn wholly owned by Brilliant Spark Holdings Limited. Brilliant Spark Holdings Limited is wholly owned by Mr. Ruigang Li (黎瑞剛), an Independent Third Party.

Oriental Grow and Wuyue Tianxia

Oriental Grow is a limited liability company incorporated in British Virgins Islands. It is wholly owned by Shanghai Siyue Technology Partnership (Limited Partnership) (上海司嶽科技合夥企業(有限合夥)), which is in turn owned as to 99.99% by Wuyue Tianxia, a limited partnership registered in the PRC, whose general partner was held as to 50% by Mr. Zhao Weiguo (趙維國) and 50% by Ms. Zhao Jie (趙潔), respectively, each of whom is an Independent Third Party. Wuyue Tianxia has four limited partners and only one holds over 30% of the entire equity interest therein, namely Shanghai Gefei Tancheng Investment Center Partnership (Limited Partnership) * (上海歌斐坦誠投資中心(有限合夥)) which holds approximately 67.07% of the entire equity interest therein.

Guolian Securities

Guolian Securities is a segregated portfolio company incorporated in the Cayman Islands, and Guolian Global Capital Limited holds its 100% management shares. Guolian Global Capital Limited is wholly-owned by Guolian Securities International Co., Limited, which is a wholly owned subsidiary of Guolian Securities (H.K.) Co., Limited. Guolian Securities (H.K.) Co., Limited is wholly owned by Guolian Securities Co., Ltd., a company listed on the Stock Exchange (stock code: 1456) and the Shanghai Stock Exchange (stock code: 601456). To the best of our Directors' knowledge, Guolian Securities is an Independent Third Party.

Bright Galaxy, Bright Galaxy II Limited and Bright Growth

Bright Galaxy is a limited liability company incorporated in British Virgin Islands. It is wholly owned by Bright Vision. Bright Galaxy II Limited is a limited liability company incorporated in the British Virgin Island and a wholly-owned subsidiary of Bright Galaxy.

Bright Growth is a limited partnership registered in the PRC, whose general partner is Tibet Zeze Venture Capital Management Co., Ltd. (西藏澤澤創業投資管理有限公司). Bright Growth has four limited partners and only one holds over 30% of the entire equity interest therein, namely Shantou Yibo Toy Technology Industrial Co., Ltd.* (汕頭市毅博玩具科技實業有限公司) ("**Shantou Yibo**"), which holds approximately 59.41% of the entire equity interest therein.

Bright Deshang, Bright Desun, Bright Desun II Limited and Bright Vision

Bright Desun is a limited liability company incorporated in British Virgins Islands and wholly-owned by Bright Deshang. Bright Desun II Limited is a limited liability company incorporated in British Virgins Islands and a wholly-owned subsidiary of Bright Desun.

The general partner of Bright Deshang is Tibet Zeze Venture Capital Management Co., Ltd. (西藏澤澤創業投資管理有限公司) ("**Tibet Zeze**"). Tibet Zeze is owned as to 40% and 40% by Wu Xiaofeng (吳曉豐), Luo Tingxia (羅挺夏), each an Independent Third Party. The remaining interest is ultimately controlled by Lin Haixu (林海旭). Bright Deshang has four limited partners and only two hold over 30% of the entire equity interest therein, namely Tibet Deshang Investment Co., Ltd.* (西藏德商投資股份有限公司), which holds 48% of the entire equity interest therein, and Shenzhen Tianze Capital Investment Co., Ltd.* (深圳市天澤資本投資有限公司), which holds 40% of the entire equity interest therein, the general partner of Bright Vision is Shenzhen Bright Private Equity Investment Management Co., Ltd. (深圳璀璨私募股權投資管理有限公司), which is owned as to 80% to Tibet Zeze and 20% to Tibet Dilong Venture Investment Co., Ltd. (西藏迪龍創業投資有限公司) ("**Tibet Dilong**"). Tibet Dilong is controlled by Lin Haixu, being an Independent Third Party.

Bright Vision is a limited partnership registered in the PRC, whose general partner is Tibet Bright Venture Capital Management Co., Ltd. (西藏璀璨創業投資管理有限公司), which is in turn owned as to 55% by Lin Haixu and 49% by Huang Fei (黃飛), each being an Independent Third Party. Bright Vision has nine limited partners and only one holds over 30% of the entire equity interest therein, namely Shantou Yibo, which holds approximately 66.42% of the entire equity interest therein.

Shanghai Yiqian and Millennium Investment

Shanghai Yiqian is a limited partnership registered in the PRC, whose general partner is Gongqingcheng Yihe Investment Partnership (Limited Partnership) (共青城逸合投資合夥企業(有限合夥)) (currently known as Nanjing Yihe Enterprise Management Partnership (南京逸合企业管理合伙企业(有限合伙)), the general partner of which is Shenzhen Qianhai Heiyi Investment Management Co., Ltd. (深圳前海黑翼投資管理有限公司), a limited liability company incorporated in the PRC. Shenzhen Qianhai Heiyi Investment Management Co., Ltd. is owned as to 25% by Mr. Chen Feng, 51% by Mr. He Yu and 24% by Mr. Zhang Peiyuan, each of whom is an Independent Third Party. Suzhou Heiyi Venture Capital Investment Partnership (Limited Partnership) * (蘇州黑蟻創業投資合夥企業(有限合夥)) is the sole limited partner of Shanghai Yiqian and holds 99% of the entire equity interest therein.

Millennium Investment is a limited liability company incorporated in the BVI and is wholly-owned by Millennium Investment Partnership, L.P. ("**MIP**"), an exempted limited partnership incorporated in the Cayman Islands and whose general partner is BA Millennium Limited, the ultimate beneficial owner of which is Mr. He Yu. In addition, TR Capital IV, L.P. ("**TR Capital**") is interested in 74.5% of the limited partnership interests in MIP. TR Capital IV General Partner Limited is the general partner of TR Capital. TR Advisors Limited (a private limited company incorporated in Hong Kong and regulated by the SFC with Type 1 License (dealing in securities), Type 4 License (advising on securities) and Type 9 License (asset management)) is the investment sub-advisor of TR Capital. To the best of our Directors' knowledge, no single individual or shareholder is interested in 25% or more of the limited partnership interests in TR Capital. To the best of our Directors' knowledge, Millennium Investment and its ultimate beneficial owner are Independent Third Parties.

Lighthouse Capital International Inc., Lighthousecap Fellow and Lighthousecap International

Lighthouse Capital International Inc. is a limited liability company incorporated in the British Virgin Islands, which is controlled by Leo Sense Trust, a trust for the benefit of Mr. Xuanle Zheng (鄭烜樂), an Independent Third Party. Lighthousecap Fellow is a limited partnership registered in the Cayman Islands, which is controlled by Mr. Xuanle Zheng (鄭烜樂), who is the sole limited partner of Lighthousecap Fellow and holds 100% of the entire equity interest therein. Lighthousecap International is a limited liability company incorporated in the Cayman Islands, which is in turn owned as to 87% by Lighthouse Technology Investment Limited. Lighthouse Technology Investment Limited is a wholly owned subsidiary of Lighthouse Holdings (Cayman) Limited, which is controlled by Leo Sense Trust.

ZUIKAKU CO., LIMITED

ZUIKAKU CO., LIMITED, a limited liability company incorporated in Hong Kong, which is wholly owned by Ge Zhihui (葛志輝), an Independent Third Party.

Harvest International

Harvest International is a segregated portfolio company incorporated in the Cayman Islands and its management shares are held as to 91% by Harvest Global Investments Limited ("**Harvest Investments**") and 9% by Harvest Global Capital Investments Limited ("**Harvest Capital**"), an indirect wholly-owned subsidiary of Harvest Investments. Harvest Investments is wholly-owned by Harvest Fund Management Co., Ltd. (嘉實基金管理有限公司), which is owned as to 40%, 30% and 30% by China Credit Trust Co., Ltd. (中誠信託有限責任公司), DWS Investments Singapore Limited and Lixin Investment Co., Ltd. (立信投資有限責任公司), respectively. China Credit Trust Co., Ltd. is owned by 15 entities and The People's Insurance Company (Group) of China Limited, the H shares of which are listed on the Stock Exchange (stock code: 1339) and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 601319), being the largest shareholder of China Credit Trust Co., Ltd. which holds approximately 32.92% of interest. To the best knowledge of the Directors, China Credit Trust Co., Ltd. and its beneficial owners are Independent Third Parties. DWS Investments Singapore Limited is a subsidiary of DWS Group GmBH & Co. KGaA, a company listed on the Frankfurt Stock Exchange (symbol: DWS). Lixin Investment Co., Ltd. is controlled by Tongyuan Holdings Co., Ltd. (通元控股有限公司), an indirect wholly-owned subsidiary of Beijing Saiang Media Investment Co., Ltd. (北京賽昂傳媒投資有限公司), which is ultimately owned by 60% and 40% by Zhao Hongzheng (趙宏徵) and Wang Boyu (王伯彧), respectively, each of whom being an Independent Third Party.

Shanghai Weili and Matrix

Shanghai Weili is a limited partnership registered in the PRC, whose general partner is Ningbo Matrix Investment Management Co., Ltd. (寧波矩陣投資管理有限公司) ("**Ningbo Matrix**") and Ningbo Matrix is held as to 90% by Mr. Zuo Lingye, an Independent Third Party. Shanghai Weili is an affiliate of Matrix. Matrix is the sole limited partner of Shanghai Weili and holds approximately 99.994% of the entire equity interest in Shanghai Weili and is a limited partnership registered in the PRC, whose general partner is Hangzhou Maiqisi Investment Partnership (Limited Partnership) (杭州麥奇思投資合夥企業(有限合夥)), a limited partnership registered in the PRC. The general partner of Hangzhou Maiqisi Investment Partnership (Limited Partnership) is Hangzhou Jingwei Investment Management Co., Ltd. (杭州景巍投資管理有限公司), a limited liability company incorporated in the PRC which is owned by Mr. Zuo Lingye (左淩燁), an Independent Third Party, as to 90% and Ms. Xiao Ping (肖萍) as to 10%, an Independent Third Party. Matrix has 31 limited partners and none of them hold over 30% of the entire equity interest therein. By virtue of SFO, Mr. Zuo Lingye is deemed to be interested in the Shares held by Matrix. To the best of our Directors' knowledge, Matrix is an Independent Third Party.

Red Earth, Hongtu Venture, SCGC and Shenzhen Capital Group

Red Earth is a wholly-owned subsidiary of SCGC. SCGC is a company incorporated in the BVI with limited liability which is an investment holding company and wholly owned by Shenzhen Capital (Hong Kong) Company Limited (創新資本(香港)有限公司) which is in turn wholly-owned by Shenzhen Capital Group. Hongtu Venture is a limited liability company established under PRC laws and Shenzhen Capital Group is its largest shareholder holding 35% of interest.

Shenzhen Capital Group is a limited liability company established in August 1990 under PRC laws, under the sponsorship from the Shenzhen government, who still holds approximately 28.2% equity interest as its largest shareholder. To the best of our Directors' knowledge, Shenzhen Capital Group, Red Earth, Hongtu Venture, SCGC and their respective ultimate beneficial owners are Independent Third Parties.

Shanghai Yukuang and Qidian

Shanghai Yukuang is a limited partnership registered in the PRC, whose general partner is Qidian and whose sole limited partner is Pingxiang Aoye Investment Development Co., Ltd.* (萍鄉奧燁投資發展有限公司) ("**Pingxiang Aoye**"). Shanghai Yukuang is owned as to 90.5714% and 9.4286% by Qidian and Pingxiang Aoye, respectively.

Qidian is a limited partnership registered in the PRC, whose general partner is Guangzhou Infinite Qidian Consulting Service Co., Ltd.* (廣州市無限奇點諮詢服務有限公司) ("**Infinite Qidian Consulting**"), which is in turn owned as to 90% by Mr. Weng Xinyang (翁信仰) and 10% by Mr. Huang Dequan (黃得全). Qidian has nine limited partners and none of them hold more than 30% of the entire equity interest therein. In addition, Qidian is owned as to approximately 13.24%, 2.70%, 2.70% and 0.27% by Guangdong Mutian Investment Consulting Partnership (Limited Partnership) (廣東沐田投資諮詢合夥企業(有限合夥), "**Guangdong Mutian**"), Guangzhou Lingyi Enterprise Consulting Services Partnership (Limited Partnership) (廣州零壹企業諮詢服務合夥企業(有限合夥), "**Guangzhou Lingyi**"), Guangdong Yuling Equity Investment Partnership (Limited Partnership) (廣東宇零股權投資合夥企業(有限合夥), "**Guangdong Yuling**") and Infinite Qidian Consulting respectively. Guangdong Mutian is owned as to 99% by Mr. He Fen; Guangzhou Lingyi is owned as to 90% by Mr. Wu and 10% by Ms. Zheng Xiaosi (鄭曉思); Guangdong Yuling is owned as to 99% by Mr. Guo and 1% by Mr. He Fen. Save for (i) Mr. Wu and Mr. Guo, our executive Directors and (ii) Guangzhou Lingyi and Guangdong Yuling, the beneficial owners of Qidian, the limited partners of Qidian, and the beneificial owners of Infinite Qidian Consulting, are each an Independent Third Party.

Pingxiang Aoye is a limited liability company established in the PRC, which is ultimately owned as to 100%, by Mr. Wang Weihua (王偉華) and Ms. Hu Ping (胡萍), each an Independent Third Party.

Guangzhou Kuaike Enterprise Management and Gongqingcheng

Guangzhou Kuaike Enterprise Management is a limited partnership registered in the PRC, whose general partner is Guangzhou Lingyi and whose sole limited partner is Guangzhou Qidian Enterprise Consultancy Service Partnership (Limited Partnership)* (廣州奇點企業諮詢服務合夥企業(有限合夥)), which holds 67% of the entire equity interest therein. Gongqingcheng is a limited partnership registered in the PRC, whose general partner is Mr. Wu and is owned as to 99% by Mr. Guo, who is the sole limited partner thereof.

Save for (i) Mr. Wu and Mr. Guo, our executive Directors and (ii) Guangzhou Lingyi, the beneficial owners of Guangzhou Kuaike Enterprise Management and Gongqingcheng are each an Independent Third Party.

Shanghai Chongyi and Shenzhen Hongtai

Shanghai Chongyi is a limited partnership registered in the PRC, whose general partner is Shanghai Chongyue Enterprise Management Consulting Co., Ltd.* (上海翀越企業管理諮詢有限公司) ("**Shanghai Chongyue**"). Shenzhen Hongtai is the sole limited partner of Shanghai Chongyi and holds approximately 99.93% of the entire equity interest therein. Shanghai Chongyi is an indirect subsidiary of Shenzhen Hongtai.

Shenzhen Hongtai is a private equity fund which is principally engaged in, among others, project investment, investment management, asset management, investment consulting and corporate management consulting. After having made all reasonable enquiries, the general partners of Shenzhen Hongtai are Ningbo Meishan Bonded Port Area Jinhu Investment Management LP* (寧波梅山保稅港區錦鵠投資管理合夥企業(有限合夥)) ("**Jinhu**") and Shenzhen Hongtai Growth Equity Investment Management Co., Ltd.* (深圳洪泰成長股權投資管理有限公司) ("**Shenzhen Hongtai Growth Equity**"). Ms. Shen Yanjie directly or indirectly controls Jinhu and Mr. Sheng Xitai directly or indirectly controls Shenzhen Hongtai Growth Equity. Ms. Shen Yanjie and Mr. Sheng Xitai are each an Independent Third Party. There are 24 limited partners in Shenzhen Hongtai and each of them holds less than 20% of the entire equity interest in Shenzhen Hongtai as of the Latest Practicable Date. To the best of our Directors' knowledge, Shenzhen Hongtai is an Independent Third Party.

N5Capital

N5Capital is a limited partnership registered in the Cayman Islands, whose general partner is N5Capital GP II, LLC. N5Capital GP II, LLC is wholly owned by Yiwei Jiang, an Independent Third Party. N5Capital has 19 limited partners and and none of them hold over 30% of the entire equity interest therein.

X Adventure

X Adventure is a limited partnership registered in the Cayman Islands, whose general partner is X Adventure Management, L.P. and is controlled by X Adventure GP GP, Ltd. X Adventure has eight limited partners. X Adventure GP GP, Ltd. is controlled by Yan Xubin (閻緒彬), an Independent Third Party.

INCE Capital

INCE Capital is a limited partnership registered in the Cayman Islands, which is controlled by INCE GP Ltd., an entity ultimately controlled by JP Gan, an Independent Third Party. INCE Capital has 72 limited partners and and none of them hold over 30% of the entire equity interest therein.

Kamet Thrive 3 Limited

Kamet Thrive 3 Limited is a limited liability company incorporated in the British Virgin Islands, wholly owned by Kamet Thrive Pte. Ltd., a limited liability company incorporated in Singapore. Kamet Thrive Pte. Ltd. is wholly owned by Kamet Capital Partners Pte. Ltd., a limited liability company incorporated in Singapore, which is in turn wholly owned by Mana Ventures Ltd, a limited liability company incorporated in the British Virgin Islands. Mana Ventures Ltd is owned as to 35%, 35%, 25% and 5% by Mr. Huang FaDiao, Mr. Liang Jie, Mr. Kerry Goh Siow Hong and Mr. Derek Tay, respectively. Save for Mr. Liang Jie, the non-executive Director, the beneficial owners of Mana Ventures Ltd are each an Independent Third Party. By virtue of SFO, Mr. Huang FaDiao is deemed to be interested in the Shares held by Kamet Thrive 3 Limited.

JD Angara

JD Angara is an exempted company with limited liability organized under the Laws of the British Virgin Islands. JD Angara is a wholly-owned subsidiary of JD.com, Inc., a company listed on the NASDAQ (NASDAQ Ticker: JD) and the Stock Exchange (stock code: 9618). To the best of our Directors' knowledge, JD Angara is an Independent Third Party.

Pluto Connection Limited

Pluto Connection Limited is a limited liability company incorporated in the British Virgin Islands. It is an indirectly wholly-owned subsidiary of CITIC Securities Company Limited, whose H shares are listed on the Stock Exchange (stock code: 6030). To the best of our Directors' knowledge, Pluto Connection Limited is an Independent Third Party.

CMBC International Holdings Limited

CMBC International Holdings Limited is a limited liability company incorporated in Hong Kong. It is a wholly-owned subsidiary of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the Stock Exchange (stock code: 1988) and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 600016). To the best of our Directors' knowledge, CMBC International Holdings Limited is an Independent Third Party.

STARWIN FUND SPC – SUNRISE FUND SP

STARWIN FUND SPC – SUNRISE FUND SP is a segregated portfolio of Starwin Fund SPC, a segregated portfolio company incorporated in the Cayman Islands. Starwin Fund is wholly owned by Starwin Financial Group Limited ("**SFGL**"), a limited liability company incorporated in Hong Kong. SFGL is controlled by Hong Tai International Holding Limited, which is wholly owned by Ms. Shen Yanjie, an Independent Third Party.

Redview Capital

Redview Capital is a limited liability company incorporated in Cayman Islands. It is wholly owned by Redview Capital II Master Investment Limited, which is in turn owned by Redview Capital II L.P., a limited partnership registered in the Cayman Islands whose general partner is Redview Capital Partners II Limited, which is wholly owned by Mr. Hebert Kee Chan Pang, an Independent Third Party.

RSU Nominee

KK Evergreen Holdings Co., Ltd was a company incorporated under the laws of the British Virgin Islands. It is wholly-owned by Futu Trustee Limited RSU Trustee and an Independent Third Party, as the nominee to hold the underlying Shares under the RSU Scheme.

6. Compliance with [REDACTED] Investment Guidance

On the basis that (i) the considerations for the [**REDACTED**] Investments were irrevocably settled more than 28 clear days before the date of our first submission of the [**REDACTED**] to the Stock Exchange and (ii) the special rights granted to the [**REDACTED**] Investors pursuant to the relevant shareholders agreement have been terminated prior to such [**REDACTED**] or will be terminated immediately upon the [**REDACTED**], as the case may be pursuant to the relevant shareholders' resolution, the Sole Sponsor has confirmed that the [**REDACTED**] Investments are in compliance with Chapter 4.2 under the Guide for New Listing Applicants published by the Stock Exchange effective from January 1, 2024.

7. Compliance with PRC Laws and Regulations

Our PRC Legal Advisers have confirmed that the share transfers, reorganizations, acquisitions and disposals 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 as of the Latest Practicable Date.

M&A Rules

According to the Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (《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, the SAT, the CSRC, the State Administration for Industry and Commerce and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

Our PRC Legal Advisers are of the opinion that based on their understanding of the current PRC laws and regulations, prior CSRC approval for the [**REDACTED**] under the M&A rules is not required because (i) the CSRC currently has not issued any definitive rule or interpretation concerning whether [**REDACTED**] like ours under this document are subject to this regulation; and (ii) Guangdong Kuaike Electronic was a foreign-invested enterprise before it was acquired by Dongguan WFOE. However, there can be no assurance that the relevant PRC government agencies, including the CSRC, would reach the same conclusion.

SAFE Circular No. 37

Pursuant to the SAFE Circular No. 37 promulgated by SAFE and which became effective on July 4, 2014, (i) 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 (ii) 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 the 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 No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the SAFE Circular No. 13 issued by SAFE and which 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.

Our PRC Legal Advisers have advised that Mr. Wu and Mr. Guo, who are PRC residents, have completed their initial foreign exchange registration in respect of their respective incorporation of MOGR and Starlight as required under SAFE Circular No. 37 on April 3, 2020.

OVERVIEW

Who We Are

We were one of the top three offline-driven non-grocery retailers for lifestyle products in China by GMV in 2022, according to the Frost & Sullivan Report. We had a market share of 1.6% by GMV in the offline-driven non-grocery retail market in China in 2022. The market size of the offline-driven non-grocery retail market in China reached RMB268.5 billion by GMV in 2022, accounting for 6.6% of the overall market size of the lifestyle product retail market in China by GMV in the same year, according to the Frost & Sullivan Report.

As of the Latest Practicable Date, there were 800 stores in our retail store network, including 680 self-owned stores and 120 franchise stores. Our retail store network covers 31 provinces in China and 34 cities in Indonesia.

We are dedicated to providing satisfying shopping experiences to our customers. Upholding such commitment, we have built a large consumer base, through which we continue to enhance our brand image. Our success in the ever-changing, highly competitive and fragmented offline-driven non-grocery retail market is attributable to a broad range of factors, including the brand synergies, store site and merchandise selection, interior decoration and layout, as well as supplier portfolio.

Where We Are

The offline-driven non-grocery retail market in China has been evolving rapidly at both demand and supply ends.

Demand

- ***Rising disposable income and growing middle-class population.*** The growing middle-class population in urban areas of China has become the main customer for lifestyle products, while rising disposable income enhances its desire for better living standards, resulting in increased consumption expenditures on lifestyle products, according to the Frost & Sullivan Report.

- ***Younger generation's propensity to spend.*** When selecting products and places for shopping, the younger generation tends to place more emphasis on (i) the design of lifestyle products that can reflect individualized preference, novelty and high aesthetic quality; (ii) good value for money; (iii) product diversity and brand image; and (iv) shopping experiences that highlight surprise discoveries.

- ***Increasing demand for surprise-filled and satisfying shopping experiences.*** In the era of "rapid consumption", consumers prefer a surprise-hunting experience through sensory participation in uniquely themed offline stores. Immersed in a pleasant and surprise-filled store atmosphere, consumers are more likely to make independent and happy purchases.

Supply

- ***Emerging new brands.*** Over the past few years, China has witnessed a surge in consumer interest in domestic brands and products that embody traditional Chinese cultural elements, featuring fashionable designs and cool style, as well as the rise of imported cutting-edge brands. This trend drives the emergence of domestic collection stores, particularly those with a business model that integrates a large number of cost-effective products from trendy and popular brands, and provides consumers with more dynamic and satisfying shopping experiences at a one-stop location.

- ***Emerging new technologies.*** Advanced analytical and processing technologies have been widely adopted to continuously improve the technology capability of retailers' management systems. This greatly enhances the operational efficiency of retailers from various aspects, such as merchandise identification, store management and supply chain management.

What We Have Achieved

We successfully incubated four retail brands, namely KKV, THE COLORIST, X11 and KK Guan, among which our KKV and KK Guan collectively ranked second in the featured variety segment, THE COLORIST ranked third in the beauty segment, and X11 ranked fifth in the pop toy segment in the offline-driven non-grocery retail market in China, in terms of GMV in 2022, according to the Frost & Sullivan Report.

We offered consumers various kinds of lifestyle products of over 20,000 SKUs across 11 major categories under our four retail brands, facilitating an effective reach to a wide consumer spectrum, as of October 31, 2023. The total store number increased by 30.2%, from 556 as of December 31, 2020 to 724 as of October 31, 2023.

OUR COMPETITIVE STRENGTHS

A leading offline-driven non-grocery retailer for lifestyle products with multiple retail brands

We offer satisfying shopping experiences and a vast variety of lifestyle products to consumers through our extensive nationwide store network under multiple retail brands. We were one of the top three offline-driven non-grocery retailers for lifestyle products in China by GMV in 2022, according to the Frost & Sullivan Report. The market size of the offline-driven non-grocery retail market in China reached RMB268.5 billion by GMV in 2022, accounting for 6.6% of the overall market size of the lifestyle product retail market in China in the same year, according to the Frost & Sullivan Report. We opened our first store in China in December 2015, and built up an extensive network of 800 stores covering over 200 cities across 31 provinces in China and 34 cities in Indonesia as of the Latest Practicable Date.

Our success is largely attributable to our multi-brand strategy. We carefully select our product portfolio by sourcing the most popular merchandise brands from both China and abroad while most of our domestic peers mainly sell products of their own brands.

Our multi-brand product selection approach enables us to focus on selecting trendy and high quality products that already have market impact and delivering them to customers in a timely manner. Meanwhile, by setting strict onto-the-shelf criteria, our goal is to ensure that selected products reflect the latest trends and address customer preferences.

Optimizing the shopping experiences of our customers, we focus on the selection and collections of diverse, popular and high value-for-money lifestyle products in the stores. We believe that having a portfolio of different product offerings at a one-stop location not only creates positive synergies, but also increases our bargaining power with lease owners.

Leveraging our excellent merchandise selection capability, we offer consumers various lifestyle products of over 20,000 SKUs across 11 major categories under our four retail brands, covering all major core lifestyle product categories including beauty, pop toys, food and beverage, household, and stationery, facilitating an effective reach to a wide consumer spectrum.

In line with our strategy on store network expansion and retail brand influence, we take into account various factors in determining locations of retail stores, including visibility, population density in local areas, and proximity to target customer groups. Compared with most of our domestic peers, we generally offer more varieties of products and utilize larger store areas by securing good locations in popular shopping malls in China.

The table below sets forth the site selection details by retail brand during the Track Record Period:

Retail Brand	Brand position	Typical site selection
KKV	Integrated lifestyle retail stores with a wide range of carefully selected merchandise targeting teenagers and young adults	Super-sized store sites in landmark shopping centers with a single store site area ranging from 300 sq.m. to 3,500 sq.m.
THE COLORIST	Beauty retail stores offering wide range of domestic and imported masstige and entry lux cosmetics brands	Large store sites in landmark shopping centers with a single store site area ranging from 100 sq.m. to 400 sq.m.
X11	Pop culture retail stores where fans shop for pop toys and pop art products of the characters they adore	Large store sites in popular shopping centers with a single store site area ranging from 150 sq.m. to 5,500 sq.m.
KK	Lifestyle mini marts with an assortment of domestic and imported products in diversified product categories	Flexible selection of either core shopping areas or other store sites with high-volume pedestrian flow with a store site area ranging from 80 sq.m. to 900 sq.m.

We are devoted to continuously optimizing our merchandise collection, brand positioning and site selection, through which, we have managed to attract a large consumer group. With accumulated customer visits to our retail brands, we have successfully established public recognition of our status as an offline-driven non-grocery retailer for lifestyle products providing satisfying shopping experiences. Leveraging our market influence, we believe that we are able to maintain a lasting connection between our brands and customers, further promoting our consistent growth.

A consumer-centric offline-driven non-grocery retailer for lifestyle products with deep consumer insights

A consumer-centric culture has been deep-rooted in our history since our inception in April 2015. We have implemented various measures to promote the customer experience through merchandise selection, store decoration and soft marketing behavior conducted by in-store staff. We focus on customer needs through analyzing customer behavior and interests, so that we can timely identify opportunities to offer suitable products and services to our customers.

Through continuous and direct interaction with target consumer groups, we have accumulated and continuously studied substantial amounts of transaction data, capitalizing on which, we have established deep consumer insights. As a result, we have managed to provide consumers with satisfying shopping experiences with unique features, which further enhances our distinctive brand image. We believe that transaction data is a reliable tool to accurately reflect market demand and consumer preferences. We have adopted a merchandise selection strategy supported heavily by big data analysis. This allows us to discover the most popular products among local consumers in a timely manner, so that we can efficiently adjust our product portfolio at each store in a flexible way, optimizing our service to local consumers' needs resulting in "Unique Design for Every Store (千店千面)".

We have been investing in promoting satisfying experiences for customers. By creating an eye catching, minimalist space layout and utilizing vibrant color schemes, we stimulate our customers' curiosity and desire to explore as they enter the store. Leveraging this feature, quite a number of stores have immediately become "popular" upon opening, turning into one of the local fashion landmarks and check-in spots for "internet celebrities (網紅)". After consumers enter the stores, they can easily find the products they want while having "the joy of experience and discovery" thanks to the clear classification of shelf displays, matched with design ideas and "life-scenario-based" displays. Furthermore, these designs exhibit aesthetic appeal and encourage our customers to proactively share their shopping experiences on social media platforms, bringing value-added rewards to them while creating a valuable word-of-mouth marketing effect for us.

Our four retail brands stand as market leaders in their respective market segments and hold large consumer bases featuring strong loyalty and high activity. Standing out in the highly competitive retail market, we look closely into the interests and demands of our consumer base, particularly Millennials and Generation Z, and have formed a deep insight into KOL marketing on social networks, all of which contribute to the promotion of our brand recognition among the public, customer affinity and competitive edge over other industry players.

Proven ability to incubate and scale new retail brands

Leveraging on our store layouts that enhance our customers' aesthetic and sensory experience, we deliver satisfying shopping experiences with cozy, welcoming, trendy or progressive themes, which cannot be duplicated online. Since our inception in April 2015, we learned through our store-opening experiences and have continued to explore customers' actual needs. Underpinned by these experiences, we have successfully incubated four retail brands, each of which was designed to serve customers from different demographics. Each retail brand has been well recognized in their respective sectors.

KKV

- *Brand strategy*: Evolved from KK Guan, KKV upgrades its merchandise offering, store format and target customers. KKV focuses on offering the hottest-selling merchandise (爆款). KKV stores generally occupy large store spaces ranging from 300 sq.m to 3,500 sq.m. in key commercial areas, granting them stronger bargaining power and operating leverage with greater brand influence.

- *Industry position*: We are determined to become a leading next-generation and traffic-oriented major brand.

THE COLORIST

- *Brand strategy:* Taking advantage of our existing core strengths, THE COLORIST embodies our horizontal expansion into various vertical segments in the beauty industry. THE COLORIST focuses on giving customers an in-store experiential shopping journey with carefully selected product offerings across six categories.

- *Industry position:* Locally-adapted beauty retail stores to serve the ever-increasing demands in the beauty market.

X11

- *Brand strategy:* With diversified cultural and pop elements, X11 provides an accessible way for passionate fans to express their affection and affinity to characters they adore. Given the wide range of pop merchandise we offer, fans will find their shopping experiences more personalized.

- *Industry position:* A large-sized pop toys retail brand with diversified pop culture offerings in China.

KK Guan

- *Brand strategy:* KK Guan is a modern mini-mart that offers an assortment of domestic and imported leisure foods, personal care products and other merchandise with attractive design and great value at friendly prices.

- *Industry position:* KK Guan stores are a "go-to" venue for consumers to replenish their daily household products.

Effective and comprehensive information technologies to achieve operational efficiency

We manage both self-owned stores and franchise stores under similar arrangements which could enable us to better organize financial and human resources to formulate business plans, monitor store operations, control sales channels and adjust business strategies in a more flexible and agile way. Furthermore, similar arrangements could empower us to attain key consumer insights by utilizing digital tools and to conduct consumer behavior analysis, merchandise planning and operations, and precision marketing to enhance operational management efficiency while strengthening brand power and increasing customer stickiness.

We distinguish ourselves by continuously improving operational efficiency with effective and comprehensive information technologies. Leveraging our self-developed technology capabilities, we are able to form a highly scalable analysis system tailor-made for our daily operations that enables in-depth and real-time analysis of substantial amounts of transaction data. Furthermore, we have endeavored to transform our leading technologies and large numbers of transaction data into a digital and intelligent management system to empower every link of operations.

Merchandise Selection

We believe that the carefully selected merchandise offerings in the stores have greatly contributed to our business success. We utilized PSS, which works in-sync with our other information technology systems as a whole, allowing us to process large volumes of raw and scattered market data, purchase history, real-time inventory feedback from stores, and information we obtained from third-party social media platforms, and further convert this quickly and accurately into readable and structured information. This readable and structured information will then translate into relatable insights that form the basis of our merchandise selection decisions.

Based on the objective information generated by our PSS, we are able to avoid the risks of human judgment error and emotional bias to the fullest extent possible. In addition, with the insights provided by PSS, our merchandise selection process is systematic and highly efficient. We also have a dynamic merchandise reevaluation mechanism in place. We hold weekly merchandise review meetings to determine new merchandise candidates and at the same time eliminate unpopular merchandise. Coupled with our business agility in navigating through fast-changing consumer preferences, these mechanisms have allowed us to react with flexibility to address the preferences of our different customer demographics.

See "— Our Merchandise Offerings — Our Merchandise Sourcing Procedures and Selection Policy — Our Merchandise Selection Criteria and Process."

Store Management

We implemented proprietary KPOS, KVCM and other systems in every store across all our brands to efficiently visualize and manage site selection evaluation, decoration design, shelf display, order processing, member and employee status as well as inventory status. This real-time data and standardized management empower our in-store staff and enable the management team to effectively assess the popularity of individual products and the preference of our customers, which is crucial for a prompt adjustment of product mix, pricing and shelf arrangement to boost sales as well as brand image. See "— Information Technology — Our Technology Infrastructure."

We also established a standard store employee training and management system to reduce operational dependence on human factors and enhance the replicability of store operation.

Supply Chain

The efficiency of our supply chain is critical to ensure the operation of our national sales network in over 190 cities. Our supply chain management system integrates our self-developed KPOS and TERP system seamlessly with WMS system to provide our management with high visibility and control over key aspects of the supply chain, including inventory control, logistics and warehousing. See "— Information Technology — Our Technology Infrastructure." Leveraging this highly intelligent system, our NDCs and regional warehouses work fully in sync to complete orders from our sales channels, strengthening our competitiveness on fast inventory turnover, low logistics costs and short order-fulfillment time.

Leveraging on this system, we have simplified the supply chain hierarchy and reduced the supply chain cost by directly sourcing merchandise from Third Party Brand Suppliers or engaging OEM and ODM contractors for the manufacturing of our self-owned brand merchandise, intelligently planning efficient logistics routes, and establishing long-term cooperation with quality warehousing and logistics service providers.

Cross-Department Cooperation

Keewood Low-Code system is a novel software platform that facilitates the development of internal IT systems with low coding work and quick turnaround time, by representing each department as a module and visualizing the internal process design. For the sake of efficient information sharing and close collaboration between different operating departments, multiple in-use and under-development systems are derived from Keewood Low-Code platform, such as systems to optimize product procurement, cash management, store development, internal task tracking, as well as information sharing across departments. See "— Information Technology — Our Technology Infrastructure."

We believe that by relying on our self-developed technology platforms and tools with high precision, efficiency and flexibility, we have fortified our leading marketing position and are well equipped to cope with diversified market challenges.

Our capabilities in maintaining a stable, collaborative and large supplier network

We have established a growing and high-quality list of Third Party Brand Suppliers who supply us with merchandise desired by our target customers. As of October 31, 2023, we sourced merchandise locally and globally from 1,179 Third Party Brand Suppliers, and engaged 157 OEM and ODM contractors for the manufacturing of our self-owned brand merchandise. See "— Our Suppliers and Raw Materials — Our Suppliers." Given that we have developed and maintained a diverse supplier network and have accumulated latest products information in the retail markets, we are able to comprehend the ever-changing product trends swiftly. Further, as we do not rely on any of our suppliers, we are in a more advantageous position to negotiate more favorable pricing to better control our procurement costs. We believe that stable collaborative relationships with our suppliers enable us to create and foster long-term relationships with our suppliers.

An experienced management team

Our founding team has unique insights into relevant industries. Mr. Wu, our Founder, and Mr. Guo, who have made significant contributions to the growth and development of the business of the Group, are among the first cross-border e-commerce entrepreneurs in China. They have in-depth understanding of the new retail industry. Our principal founding team has progressive entrepreneurial and investment insights.

Our management team has rich experience spanning all major aspects of our business, including retailing, branding and marketing, supply chain management and digital technologies. We believe that the knowledge, experience and strategic insights of our senior management team have been crucial to the success of our business and enabled us to anticipate market trends and stay ahead of our competitors.

Our management team is driving our rapid development and cultivating a vigorous and talent-oriented corporate culture that encourages acting with courage and determination.

OUR DEVELOPMENT STRATEGIES

Expand our nationwide retail network

We aim to open more offline stores and create the "go-to" (首選) brands for our target customers when they are making decisions in purchasing lifestyle products. Since consumers tend to use a lasting impression to interpret and classify information about brands and products, our "go-to" brand image could shape consumer behaviors and drive associated purchases among our different brands.

To create and ensure a "go-to" lifestyle brand image, we will open new stores in hot spot locations of major shopping centers across various cities of different tiers and attract heavy customer traffic through our unique interior design and distinctive brand image. We will also maintain long-term mutually-beneficial relationships with important shopping centers and lease owners, to retain a consistent store style and to secure good locations. We will further expand our consumer base through our store style, product portfolio, and extensive store network.

Continue to develop global product sourcing capability and bring our customer the latest product portfolio

Through our advanced store sales management and monitoring system, we will continue to refine and optimize our sourcing criteria for evaluating and selecting our product portfolio. We pride ourselves in identifying "value-for-money" products for our customers which drives us to further enrich our product offerings by launching distinctive SKUs in existing categories and timely adjusting our merchandise mix.

We will optimize our pricing policy and control our procurement costs by large-volume purchasing and supplier bidding mechanism, bringing our end consumers a variety of products at competitive prices. Furthermore, we will establish long-term business relationships with our suppliers to ensure merchandise quality and continuous product iteration.

We will further develop our global supply chain sourcing capabilities by strengthening our cooperation with existing qualified suppliers and attracting new capable upstream suppliers. We aim to capitalize on the diverse background and experience of our procurement team and enhance our exposure to new suppliers that meet our standards.

Further optimize our operational efficiency through effective information technology

We plan to continuously invest in our information technology systems, particularly in the software components that can streamline workflows, lighten back-end management and simplify collection of services. We consider efficient logistics and order fulfillment as integral parts of our business operation and will continue to implement our headquarters' real-time and centralized management system covering supply chain, logistics, storage and store level operations. Our upgrades in those systems will enhance our operational efficiency through alignment amongst real-time operating data and feedbacks from stores.

We also plan to further enhance our database and big data analytics capability to gain insight into customer purchase preferences across regions and to standardize our approach to store operations and management with an aim to minimize the influence of human bias. Our systematic approach to store operation and standardized workflow will enable us to expand stores efficiently.

Furthermore, with improved big data analysis capability that empowers automation, we will continue to enhance operating efficiency through a streamlined and simplified corporate structure and business divisions.

Enhance our existing brand portfolio and launch new retail brands

We will continue to incubate retail brands and stores with unique brand images and strong characteristics that appeal to our target customers, and further stimulate the potential demands of target customers.

As uniform brand image is crucial to establish brand recognition and awareness, we intend to further deploy a strict control of store image and environment, and constantly upgrade our store design. We believe that these measures will provide us with more standardized management across different stores under the same retail brand while maintaining operational efficiency.

Promote online sales

Leveraging on offline traffic, we plan to boost online sales by diverting our offline customer base to online platforms, where we strive to enhance customer loyalty through digital and social transformation.

We believe our offline retail business and customer base present potential for online sales. Our integrated coverage of both online and offline markets can further promote online purchasing power through cross-selling and our brand affinity. The strong in-store social media presence will also maximize customer touchpoints and promote online sales.

We will continue to promote the digital, social, and quality-focused transformation of the retail market. By launching marketing initiatives on popular social media platforms, we will proactively continue reaching out to online customers. We look to enlarge the impact of our brands and consumer base through marketing campaign collaborations with KOLs in online shopping communities, through active involvement in marketing activities on online shopping-related platforms. With such a comprehensive approach, we will greatly boost our online sales, increase brand awareness and enhance brand loyalty among millions of existing as well as potential customers.

OUR RETAIL BRANDS

We have four retail brands — (i) KKV, (ii) THE COLORIST, (iii) X11 and (iv) KK Guan. Each of these retail brands serves the market needs of different consumer demographics in China.

The following table provides a breakdown of our GMV by retail brands for the periods indicated:

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
KKV	1,156,480	51.3%	2,889,145	64.1%	3,084,322	70.5%	2,679,319	69.9%	4,173,462	75.4%
THE COLORIST	604,842	26.8%	1,117,153	24.8%	815,399	18.6%	729,044	19.0%	885,175	16.0%
KK Guan	479,072	21.3%	346,531	7.7%	221,824	5.1%	200,698	5.2%	145,235	2.6%
X11	13,853	0.6%	157,297	3.5%	252,832	5.8%	225,770	5.9%	331,601	6.0%
Total GMV(1)	**2,254,247**	**100.0%**	**4,510,126**	**100.0%**	**4,374,377**	**100.0%**	**3,834,831**	**100.0%**	**5,535,473**	**100.0%**

Note:

(1) GMV refers to gross merchandise value, namely the full value of sales proceeds generated by (i) offline sales including sales in (a) our self-owned stores and (b) franchise stores, and (ii) online sales. See "— Online Sales."

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

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
KKV	834,734	50.7%	2,235,379	63.4%	2,362,134	66.5%	2,034,247	66.3%	3,270,393	68.6%
THE COLORIST	439,729	26.7%	853,102	24.2%	598,402	16.9%	530,529	17.3%	756,307	15.9%
KK Guan	320,885	19.5%	225,775	6.4%	139,054	3.9%	126,194	4.1%	101,464	2.1%
X11	12,840	0.8%	159,389	4.5%	239,634	6.7%	214,395	7.0%	304,828	6.4%
Others(1)	37,716	2.3%	50,209	1.5%	211,727	6.0%	161,161	5.3%	336,285	7.0%
Total	**1,645,904**	**100.0%**	**3,523,854**	**100.0%**	**3,550,951**	**100.0%**	**3,066,526**	**100.0%**	**4,769,277**	**100.0%**

Note:

(1) Primarily including revenue generated from online sales and bulk purchasing. For details, see "Financial Information — Description of Select Consolidated Statements of Comprehensive Income Line Items — Revenue."

KKV

We commenced the operation of KKV stores in May 2019, which demonstrates our successful expansion in the retail sector leveraging in-depth industry insights through operating KK Guan, our first retail brand. With a store space typically ranging from 300 sq.m. to 3,500 sq.m., KKV is an integrated lifestyle retail brand which offers a wide range of exquisite merchandise targeting teenagers and young adults who represent the class of consumers with strong spending power, acute appetite for fashion, and increasing needs for refined lifestyles. The merchandise we offer in KKV stores is prominently characterized with novelty and aesthetic elements that we believe will strongly appeal to our target customers. As of October 31, 2023, each KKV store generally carried over 20,000 SKUs from 11 categories, covering various core lifestyle product categories, such as food, daily products, cosmetics, skincare and pop toys.

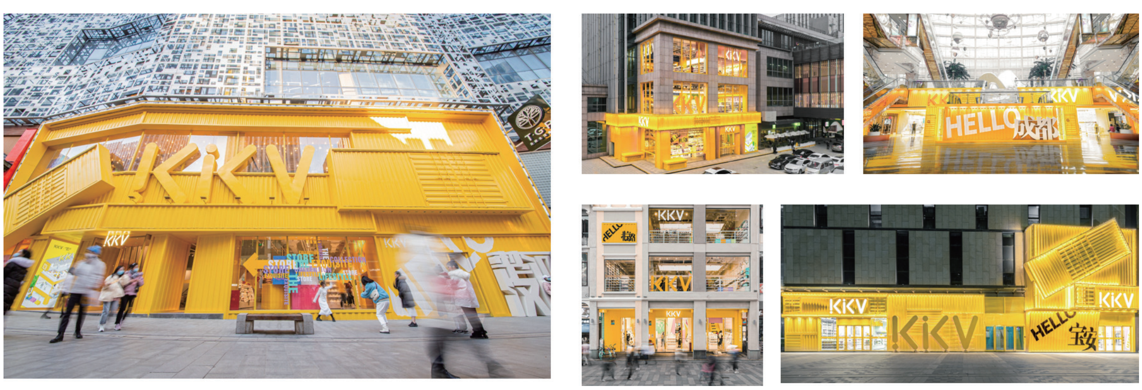
As of October 31, 2023, there were 421 KKV stores in operation, 382 of which spanned across 149 cities in 31 provinces in China, and 39 of which were situated in Indonesia.

We pay particular attention to the location and storefront design of KKV stores aiming to give our customers satisfying shopping experiences while enjoying quality goods with great value. Most of our KKV stores are located in prominent areas in middle- to high-end shopping malls across tier-one, tier-two and lower tier cities in China. Some KKV stores also operate as standalone landmark shops on nationally renowned shopping streets such as Chunxi Road in Chengdu, as well as Chu River and Han Street in Wuhan.

Merchandise offered under the brand KKV is curated to appeal to the taste of the younger generation of the populace, and we place great emphasis on the aesthetic and utility values of these merchandise. We believe that given the aesthetic appeal and the value propositions of our KKV merchandise, we can continue to attract a stable stream of customers. We also emphasize elimination rate and wide varieties of merchandise offerings to attract potential new customers and encourage recurring visits of our existing customers.

In particular, we invest in designing the color theme and shelf display in our KKV stores to promote better shopping experiences, which has made KKV stores popular check-in spots welcomed by internet celebrities who are keen to share their shopping experiences on social medial platforms. This strategy has resulted in a strong influence among target demographic customer groups, contributed by word-of-mouth marketing effect. Together with our retail capability in ensuring a variety of merchandise choices, store atmosphere, shopping convenience, stress-free staff-customer interaction and progressive merchandise replacement and display policies, we have successfully enhanced customer loyalty and experience, which we believed attributed to the strong growth of KKV store performance. See "— Network Management and Operations — Store Management — Designs and Merchandise Display."

The following pictures illustrate our KKV stores:



(KKV; various cities in China, including Chengdu and Shenzhen)

(KKV; interior)

(KKV; customer traffic)

The table below sets forth the total number of KKV stores and their movement during the Track Record Period:

	Year Ended December 31,			Ten Months Ended October 31,
	2020	2021	2022	2023
Number of retail stores at the beginning of the period	35	202	337	383
Number of new retail stores opened during the period	168	149	65	50
Number of retail stores closed during the period	1	14	19	12
Number of retail stores at the end of the period	**202**	**337**	**383**	**421**

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, 168, 149, 65 and 50 KKV stores were newly opened, respectively, primarily to expand the coverage of our retail network and enhance market penetration. During the Track Record Period, our KKV stores grew, primarily due to young generation's recognition and favor for an integrated retail brand with a wide variety of product offerings. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, one, 14, 19 and 12 stores were closed, respectively, primarily because some stores failed to perform satisfactorily and/or were adversely affected by the COVID-19 pandemic.

The following table sets forth the KKV stores' contribution to our results of operations for the periods indicated:

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
				(Unaudited)	
Revenue (RMB in million)	834.7	2,235.4	2,362.1	2,034.2	3,270.4
Operating profit[(1)] (RMB in million)	82.6	261.7	196.5	203.2	711.5
Operating margin[(2)]	9.9%	11.7%	8.3%	10.0%	21.8%
EBITDA (a non-HKFRS measure)[(3)] (RMB in million)	166.8	475.6	506.5	434.6	960.6
EBITDA margin (a non-HKFRS measure)[(4)]	20.0%	21.3%	21.4%	21.4%	29.4%

Notes:

(1) We define our operating profit of KKV stores as revenue deducting our operational costs incurred at store level, including (i) cost of goods sold, (ii) staff costs, (iii) depreciation of right-of-use assets and other rental related expense, (iv) depreciation and amortization of other assets, (v) daily operating expenses and (vi) relevant central management as well as logistic and warehouse expenses allocated to our stores.

(2) Operating margin of KKV stores was calculated by operating profit of KKV stores divided by revenue for the same period. Operating margin of KKV stores increased from 9.9% in 2020 to 11.7% in 2021 primarily because of (i) our improved gross profit margin, through the optimization of our merchandise costs as a percentage of our revenue by introducing more self-owned brand merchandise and bargaining for more favorable prices for third party brand merchandise leveraging on growth of economies of scale; and (ii) enhanced store operating efficiency, as we expand our business scale and manage our operating expenses more effectively. See "Financial Information — Path to Profitability." Operating margin of KKV stores decreased from 11.7% in 2021 to 8.3% in 2022 primarily because approximately 80.7% of total number of KKV stores as of December 31, 2022 were temporarily closed down for approximately 26.0 days on average in 2022 as a result of adverse effects of the COVID-19 pandemic. See "Financial Information — Description of Select Consolidated Statements of Comprehensive Income Line Items — (Loss)/Profit from Operations." Operating margin of KKV stores increased from 10.0% in the ten months ended October 31, 2022 to 21.8% in the ten months ended October 31, 2023 primarily because of (i) revenue growth after the adverse effects of the COVID-19 pandemic had subsided since January 2023, (ii) the optimization of our merchandise costs as a percentage of our revenue, and (iii) decrease in our operational costs as a percentage of revenue through economies of scale.

(3) EBITDA (a non-HKFRS measure) of KKV stores represents total of operating profit of KKV stores after adding back depreciation of property, plant and equipment and depreciation of right-of-use assets at store level.

(4) EBITDA margin (a non-HKFRS measure) of KKV stores was calculated by EBITDA (a non-HKFRS measure) of KKV stores divided by revenue for the same period. EBITDA margin (a non-HKFRS measure) of KKV stores increased from 20.0% in 2020 to 21.3% in 2021 primarily due to increase in operating margin during the relevant period. EBITDA margin (a non-HKFRS measure) of KKV stores increased from 21.3% in 2021 to 21.4% in 2022 primarily due to increase in depreciation of property, plant and equipment and depreciation of right-of-use assets primarily attributable to more self-owned stores under KKV brand both in absolute number and percentage of total store number under KKV brand. EBITDA margin (a non-HKFRS measure) of KKV stores increased from 21.4% in the ten months ended October 31, 2022 to 29.4% in the ten months ended October 31, 2023 primarily due to increase in operating margin during the same period.

KKV Stores in Indonesia

In 2020, we began our business operation in Indonesia and opened the first KKV store in Indonesia. As of December 31, 2020, 2021 and 2022 and October 31, 2023, there were three, seven, 20 and 39 KKV stores in Indonesia, respectively. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, revenue generated from our business operation in Indonesia was RMB12.8 million, RMB48.4 million, RMB197.9 million and RMB420.1 million, respectively. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, our gross profit generated from our business operation in Indonesia was RMB2.5 million, RMB18.9 million, RMB66.6 million and RMB96.9 million, respectively, and relevant gross profit margin was 19.4%, 39.1%, 33.7% and 23.1%, respectively. Prior to July 1, 2022, we held 80% of the shares in the KKV stores in Indonesia through our subsidiary PT KKV Retail Indonesia, in which we held 80% of the shares, and PT. BRIDGESINDO MITRA INTERNASIONAL, an Independent Third Party that was a local Indonesian company, held 20% of the shares.

On July 1, 2022, we transferred our shares in PT KKV Retail Indonesia to PT KKV Investama Indonesia, an Independent Third Party, at a consideration of RMB36.5 million. The consideration was determined based on (i) our trade receivables from the KKV stores in Indonesia, (ii) operational related expenses incurred by these stores, and (iii) our shares in PT KKV Retail Indonesia and our investment in the KKV stores in Indonesia. PT KKV Investama Indonesia is a local Indonesian trading company which primarily engages in merchandise wholesale. According to the best knowledge of our Directors, both PT. BRIDGESINDO MITRA INTERNASIONAL and PT KKV Investama Indonesia are controlled by the same group of shareholders.

Prior to July 1, 2022, there were no relationships or dealings between PT KKV Investama Indonesia and us, the respective shareholders, directors or senior management, or any of the respective associates. Such transaction was made mainly because (i) the Indonesian government published regulations in 2021, which began to restrict foreign investors from engaging in retail business in certain beverages and food and (ii) as of July 1, 2022, there was no clear plan from the Indonesian government to ease such restrictions. We recorded the investment loss of RMB6.7 million from such transaction in 2022.

After the transaction, we have not held any shares in the KKV stores in Indonesia since July 1, 2022. Since July 1, 2022, we have generated revenue from KKV stores in Indonesia by (i) selling our merchandise to the KKV stores in Indonesia and (ii) charging logistics expenses regarding transporting merchandise we offer. As compared to franchise stores in China where we charge stores payment for goods based on a certain percentage of in-store sales, we charge the KKV stores in Indonesia payment for goods at a wholesale price.

Pursuant to the relevant license agreement, we grant the relevant stores, on a non-exclusive basis, the right to use KKV trademark within Indonesia. The duration of the relevant license agreement is five years. Such right to use KKV trademark is non-assignable without our prior written consent. We also provide advice on store operation and management to maintain retail brand image. In return, a license fee of a low single-digit percentage of sales generated in the relevant stores is payable to us on an annual basis pursuant to the relevant licensing agreement. We have waived such license fee prior to December 31, 2023 to support the business development of the KKV stores in Indonesia. As of October 31, 2023, all of the 39 stores in Indonesia obtained our license to use KKV trademark in Indonesia.

The KKV stores in Indonesia can only offer merchandise supplied by us. These stores have the discretion to decide the store location, staff employment, merchandise selection, retail price of merchandise, and the matter regarding store closure. As of the Latest Practicable Date, in the KKV stores in Indonesia, we did not provide comprehensive store management and consultation services similar to those we provide in franchise stores in China. See "— Self-owned Stores and Franchise Stores — Key Terms of Franchising Arrangement."

During the Track Record Period, as advised by our Indonesian legal consultants, our business operation in Indonesia (i) had been in compliance with the relevant Indonesian laws in all material aspects; (ii) had obtained all requisite licenses, approvals and permits from the relevant authorities in Indonesia except those where the absence of such individual license, approval and permit would not have a material adverse effect on our business operations; and (iii) we were not involved in any litigation, proceeding or prosecution pending before any court or public, regulatory or governmental bodies of Indonesia involving the properties or business of the Indonesian subsidiary or these KKV stores in Indonesia.

THE COLORIST

We commenced THE COLORIST as a beauty retail brand in September 2019. THE COLORIST brand represents our successful efforts in bringing our strength and market influence into the cosmetics and skincare sector. THE COLORIST stores predominantly offer domestic and imported masstige and entry lux cosmetics brands, covering over 2,800 SKUs from six categories as of October 31, 2023, which makes it the destination for customers to conveniently pick up cosmetic and skincare products from a wide selection. THE COLORIST primarily targets young customers, whether they are beauty amateurs or connoisseurs. As of October 31, 2023, THE COLORIST offered 240 domestic brands, including our own brands, and 132 overseas brands sourced from Japan, Korea, Thailand, and United States.

We expand the network of THE COLORIST primarily in tier-one and tier-two cities, and lower tier cities with promising economic growth. THE COLORIST stores are generally in shopping malls with strong pedestrian flow and frequented by the younger generation, with a store space typically ranging from 100 sq.m. to 400 sq.m..

As of October 31, 2023, there were 216 THE COLORIST stores in operation, spanning across 114 cities in 30 provinces in China. See "— Our Retail Business Model — Our Retail Store Network."

THE COLORIST embraces an experiential concept to allow our customers to try on the products before they purchase. Samples for all of our products are arranged in bright and open self-service displays for testing, and we encourage customers who visit the stores to explore as they wish. We respect their personal space and offer stress-free shopping experiences. Our in-store staff are trained to refrain from hard-selling marketing behavior and, instead, maintain a warm and approachable manner. They answer questions from our customers and recommend products holistically, and step back as appropriate. This approach has empowered our customers with the freedom to select products that best suit their preferences with the aid of professional advice offered by our in-store staff when needed. With that, visitors in our beauty retail stores also tend to spend more time exploring products in our premises.

THE COLORIST distinguishes itself from market competitors with its youthful ambience and perceptible energy. We invest in designing our in-store space decoration and merchandise display in a cheerful and colorful way to attract teenagers and young adults. The stores properly serve both customers who intend to "grab and go" quality products they are seeking, and those who would like to experience a delightful shopping time by browsing and testing different brands, or even sharing such moments on social media.

In addition, given our stable cooperation with third-party brand owners, coupled with our ability to attract younger customers, THE COLORIST has become an offline avenue which has attracted many overseas brands to officially launch their products in China. With our advanced consumer analytical tools and localized marketing approach, these overseas brands are able to obtain instant access to valuable market data and utilize our nationwide retail platform. Similarly, many domestic and overseas nascent brand market players choose us as their first station to distribute their products in the offline network after they established a stable consumer base online.

The following pictures illustrate THE COLORIST stores:

(THE COLORIST: Wuhan city and Dongguan city)

(THE COLORIST: interior)

(THE COLORIST: customer traffic)

The table below sets forth the total number of THE COLORIST stores and their movement during the Track Record Period:

	Year Ended December 31,			Ten Months Ended October 31,
	2020	**2021**	**2022**	**2023**
Number of retail stores at the beginning of the period	7	229	248	207
Number of new retail stores opened during the period	223	63	15	55
Number of retail stores closed during the period	1	44	56	46
Number of retail stores at the end of the period	**229**	**248**	**207**	**216**

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, 223, 63, 15 and 55 THE COLORIST stores were newly opened, respectively, primarily to expand the coverage of our retail network and enhance market penetration. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, one, 44, 56 and 46 stores were closed, respectively, primarily due to their failure to perform satisfactorily and the adverse effects of COVID-19 pandemic.

The following table sets forth THE COLORIST stores' contribution to our results of operations for the periods indicated:

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	**2021**	**2022**	**2022**	**2023**
				(Unaudited)	
Revenue (RMB in million)	439.7	853.1	598.4	530.5	756.3
Operating profit[(1)] (RMB in million)	19.7	27.2	(33.6)	(6.8)	128.2
Operating margin[(2)]	4.5%	3.2%	(5.6%)	(1.3%)	17.0%
EBITDA (a non-HKFRS measure)[(3)] (RMB in million)	109.6	197.9	129.9	126.7	209.7
EBITDA margin (a non-HKFRS measure)[(4)]	24.9%	23.2%	21.7%	23.9%	27.7%

Notes:

(1) We define our operating profit of THE COLORIST stores as revenue deducting our operational costs incurred at store level, including (i) cost of goods sold, (ii) staff costs, (iii) depreciation of right-of-use assets and other rental related expense, (iv) depreciation and amortization of other assets, (v) daily operating expenses and (vi) relevant central management as well as logistic and warehouse expenses allocated to our stores.

(2) Operating margin of THE COLORIST stores was calculated by operating profit of THE COLORIST stores divided by revenue for the same period. The operating margin of our THE COLORIST stores decreased from 4.5% in 2020 to negative 5.6% in 2022 primarily because (i) in 2020, 2021 and 2022, approximately 11.8%, 14.5% and 85.5% of THE COLORIST stores as of December 31, 2020, 2021 and 2022 experienced temporary closures for 19.5 days, 17.6 days and 25.9 days on average in 22 cities, 25 cities and 96 cities respectively in China; (ii) operational costs as discussed above still incurred while the average monthly sales per store of our THE COLORIST stores decreased due to such effects of the COVID-19 pandemic; and (iii) more than half of our THE COLORIST stores as of December 31, 2022 were still in the ramp-up period which was disrupted by the COVID-19 pandemic. Operating margin of THE COLORIST stores increased from negative 1.3% in the ten months ended October 31, 2022 to 17.0% in the ten months ended October 31, 2023 primarily because of (i) revenue growth after the adverse effects of the COVID-19 pandemic had subsided since January 2023, (ii) the optimization of our merchandise costs as a percentage of our revenue, and (iii) decrease in our operational costs as a percentage of revenue through economies of scale.

(3) EBITDA (a non-HKFRS measure) of THE COLORIST stores represents total of operating profit of THE COLORIST stores after adding back depreciation of property, plant and equipment and depreciation of right-of-use assets at store level.

(4) EBITDA margin (a non-HKFRS measure) of THE COLORIST stores was calculated by EBITDA (a non-HKFRS measure) of THE COLORIST stores divided by revenue for the same period. EBITDA margin (a non-HKFRS measure) of THE COLORIST stores decreased from 24.9% in 2020 to 21.7% in 2022 primarily due to decrease in operating margin. EBITDA margin (a non-HKFRS measure) of THE COLORIST stores increased from 23.9% in the ten months ended October 31, 2022 to 27.7% in the ten months ended October 31, 2023 primarily due to increase in operating margin in the same period.

X11

We commenced the X11 retail brand in January 2020 by observing strong growth in the underserved demand for pop toys and pop art products in China. Pop toys and pop art products are becoming an accessible way for fans to express their affection and affinity with characters they adore. Our observation led us to pay close attention to identifying and tracking merchandise endorsed by pop culture or content, with a view to offering it to our target customers. The merchandise offerings under X11 brand target a wide array of audience from Z-generation to grown-ups, as well as pop toy collectors of all ages.

As of October 31, 2023, X11 stores carried over 2,000 SKUs from nine categories, covering products such as blind boxes, action figures, puzzles, figurines, BJD dolls, and plush toys. We rely on IP resources for the operation of our X11 stores. Apart from selling licensed IPs merchandise, we have also engaged independent designers for the creation of our proprietary IPs to be offered in our X11 stores.

All X11 stores are located in the high-end commercial areas and art districts with high foot-traffic, with a store space typically ranging from 150 sq.m. to 5,500 sq.m. As of October 31, 2023, we had 48 X11 stores in operation, located in 32 cities in 21 provinces in China. See "— Our Retail Business Model — Our Retail Store Network."

(X11; Shanghai)

(X11; interior)

(X11; customer traffic)

	Year Ended December 31,			Ten Months Ended October 31,
	2020	2021	2022	2023
Number of retail stores at the beginning of the period	–	4	35	50
Number of new retail stores opened during the period	4	32	16	7
Number of retail stores closed during the period.	–	1	1	9
Number of retail stores at the end of the period	**4**	**35**	**50**	**48**

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, we opened four, 32, 16 and seven new X11 stores primarily to expand the coverage of our retail network and enhance market penetration. We closed nil, one, one and nine stores during the same periods, respectively, primarily because of the adverse effects of the COVID-19 pandemic and the relevant stores' failure to perform satisfactorily.

The following table sets forth the X11 stores' contribution to our results of operations for the periods indicated:

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	**2021**	**2022**	**2022**	**2023**
				(Unaudited)	
Revenue (RMB in million)	12.8	159.4	239.6	214.4	304.8
Operating profit[(1)] (RMB in million)	(3.0)	(17.1)	(95.6)	(73.4)	10.4
Operating margin[(2)]	(23.4%)	(10.7%)	(39.9%)	(34.2%)	3.4%
EBITDA (a non-HKFRS measure)[(3)] (RMB in million)	2.1	18.4	30.6	21.4	62.9
EBITDA margin (a non-HKFRS measure)[(4)]	16.4%	11.5%	12.8%	10.0%	20.6%

Notes:

(1) We define our operating profit of X11 stores as revenue deducting our operational costs incurred at store level, including (i) cost of goods sold, (ii) staff costs, (iii) depreciation of right-of-use assets and other rental related expense, (iv) depreciation and amortization of other assets, (v) daily operating expenses and (vi) relevant central management as well as logistic and warehouse expenses allocated to our stores.

(2) Operating margin of X11 stores was calculated by operating profit of X11 stores divided by revenue for the same period. The operating margin in 2020 increased from negative 23.4% to negative 10.7% in 2021 primarily due to (i) our successful opening new self-owned stores typically featured with higher gross profit margin; and (ii) brand recognition and normalization of sales during the ramp-up period since X11's inception in 2020. The operating margin of X11 stores decreased from negative 10.7% in 2021 to negative 39.9% in 2022 primarily because (i) 92.0% of total number of X11 stores as of December 31, 2022 were temporarily closed down for 32.6 days on average in 2022 as a result of pandemic control measures implemented in various cities in China and (ii) during the period of mandatory store closures, operational costs as discussed above still incurred while the average monthly sales per store of our X11 stores generally decreased primarily due to effects of COVID-19 pandemic. Operating margin of X11 stores increased from negative 34.2% in the ten months ended October 31, 2022 to 3.4% in the ten months ended October 31, 2023 primarily because of (i) revenue growth after the adverse effects of the COVID-19 pandemic had subsided since January 2023, and (ii) decrease in our operational costs as a percentage of revenue through economies of scale.

(3) EBITDA (a non-HKFRS measure) of X11 stores represent total of operating profit of X11 stores after adding back depreciation of property, plant and equipment and depreciation of right-of-use assets at store level.

(4) EBITDA margin (a non-HKFRS measure) of X11 stores was calculated by EBITDA (a non-HKFRS measure) of X11 stores divided by revenue for the same period. EBITDA margin (a non-HKFRS measure) of X11 stores decreased from 16.4% in 2020 to 11.5% in 2021 primarily because there were only four X11 stores as of December 31, 2020, three of which commenced their business operation at the end of 2020, compared with 35 X11 stores as of December 31, 2021, when the operation and sales in X11 stores gradually became normalized. The figures of these limited number of X11 stores as of December 31, 2020 may not meaningfully represent our future business performance. EBITDA margin (a non-HKFRS measure) of X11 stores increased from 11.5% in 2021 to 12.8% in 2022 primarily due to increase in depreciation of property, plant and equipment and depreciation of right-of-use assets primarily attributable to the increase in the total number of X11 stores, all of which were self-owned stores. EBITDA margin (a non-HKFRS measure) of X11 stores increased from 10.0% in the ten months ended October 31, 2022 to 20.6% in the ten months ended October 31, 2023 primarily due to increase in operating margin in the same period.

KK Guan

We opened the first KK Guan store in December 2015. Since then, KK Guan has continued to distinguish itself by offering an assortment of domestic and imported leisure foods, personal care products and other merchandise with attractive design and great value at friendly prices, that provides our customers, particularly young and busy customers, with convenient and quality living solutions and enjoyable leisure food. KK Guan stores are generally snack food-focused life style mini marts, offering a variety of domestic and imported products in diversified product categories.

Leveraging our merchandise selection and store management, we have established KK Guan as the "go-to" place for customers to find top-selling and the most sought-after goods. As of October 31, 2023, KK Guan stores carried over 2,000 SKUs, primarily covering food and household products.

Our merchandise offered under the KK Guan stores is carefully selected based on considerations such as popularity, unique preferences of local consumers, aesthetic appearance, and value-for-money in order to appeal to the mass market.

We generally place KK Guan in shopping malls with strong pedestrian flow, particularly those that enjoy convenient proximity to a residential community, with a store space typically ranging from 80 sq.m. to 900 sq.m. As of October 31, 2023, there were 39 KK Guan stores in operation, located across 30 cities in 14 provinces in China. For detailed locations of the KK Guan stores, see "— Our Retail Business Model — Our Retail Store Network."

We have taken efforts in determining in-store displays of each KK Guan store so that they could show unique theme that enhances customers' brand awareness and loyalty, while presenting specific shelf layout and merchandise combinations that suit the preference of targeted key demographic customers. The assortment of merchandise in our KK Guan stores is frequently reevaluated and refreshed to reflect changing trends, as well as to attract recurring visits of our existing customers.

The following pictures illustrate the KK Guan stores:

(KK Guan; Maoming)

(KK Guan; interior)

The table below sets forth the total number of KK Guan stores and their movement during the Track Record Period:

	Year Ended December 31,			Ten Months Ended October 31,
	2020	2021	2022	2023
Number of retail stores at the beginning of the period	169	121	101	67
Number of new retail stores opened during the period	13	44	4	1
Number of retail stores closed during the period	61	64	38	29
Number of retail stores at the end of the period	**121**	**101**	**67**	**39**

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, 13, 44, four and one KK Guan stores were newly opened, respectively, primarily to expand geographic coverage, and enhance market penetration, of KK Guan store network in line with our business expansion and business synergy plan. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, 61, 64, 38 and 29 stores were closed, respectively, mainly because of our proactive approach to terminate operation of certain KK Guan stores to launch KKV stores, the relevant stores' failure to perform satisfactorily, and the adverse effects of COVID-19 pandemic. As part of our store upgrade strategies, we do not plan to actively expand the store network of KK Guan stores in the near future. The existing KK Guan stores will continue operation though some stores may be closed primarily due to unsatisfactory performance and/or the franchisees' decision to close the relevant stores based on their commercial judgment.

The following table sets forth the KK Guan stores' contribution to our results of operations for the periods indicated:

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
				(Unaudited)	
Revenue (RMB in million)	320.9	225.8	139.1	126.2	101.5
Operating profit[(1)] (RMB in million)	22.0	18.2	(4.1)	8.6	15.1
Operating margin[(2)]	6.9%	8.1%	(2.9%)	6.8%	14.9%
EBITDA (a non-HKFRS measure)[(3)] (RMB in million)	42.4	27.0	1.8	12.3	19.3
EBITDA margin (a non-HKFRS measure)[(4)]	13.2%	12.0%	1.3%	9.8%	19.0%

Notes:

(1) We define our operating profit of KK Guan stores as revenue deducting our operational costs incurred at store level, including (i) cost of goods sold, (ii) staff costs, (iii) depreciation of right-of-use assets and other rental related expense, (iv) depreciation and amortization of other assets, (v) daily operating expenses and (vi) relevant central management as well as logistic and warehouse expenses allocated to our stores.

(2) Operating margin of KK Guan stores was calculated by operating profit of KK Guan stores divided by revenue for the same period and multiplied by 100.0%. Operating margin of KK Guan stores increased from 6.9% in 2020 to 8.1% in 2021 primarily due to decrease in daily operating expenses both in absolute number and in percentage of revenue because of more franchise stores and fewer self-owned stores in terms of the percentage of total number of KK Guan stores and decreasing number of both self-owned stores and franchise stores under KK Guan brand. Operating margin of KK Guan stores decreased from 8.1% in 2021 to negative 2.9% in 2022 primarily because 83.6% of total number of KK Guan stores as of December 31, 2022 were temporarily closed down for approximately 38.5 days on average in 2022 as a result of pandemic control measures implemented in various cities in China. Operating margin of KK Guan stores increased from 6.8% in the ten months ended October 31, 2022 to 14.9% in the ten months ended October 31, 2023 primarily because of (i) the optimization of our merchandise costs as a percentage of our revenue, and (ii) decrease in our operational costs as a percentage of revenue through economies of scale.

(3) EBITDA (a non-HKFRS measure) of KK Guan stores represents total of operating profit of KK Guan stores after adding back depreciation of property, plant and equipment and depreciation of right-of-use assets at store level.

(4) EBITDA margin (a non-HKFRS measure) of KK Guan stores was calculated by EBITDA (a non-HKFRS measure) of KK Guan stores divided by revenue for the same period. EBITDA margin (a non-HKFRS measure) of KK Guan stores decreased from 13.2% in 2020 to 12.0% in 2021 primarily because (i) depreciation of property, plant and equipment and depreciation of right-of-use assets had been substantially written off as of December 31, 2021, using the straight-line method over their estimated useful lives for those KK Guan stores commenced since 2018, resulting in less depreciation adding back in 2021; and (ii) decrease in depreciation of property, plant and equipment and depreciation of right-of-use assets due to fewer self-owned stores under KK Guan brand both in absolute number and percentage of total store number under KK Guan brand. EBITDA margin (a non-HKFRS measure) of KK Guan stores decreased from 12.0% in 2021 to 1.3% in 2022 primarily due to decrease in operating margin during the relevant period. EBITDA margin (a non-HKFRS measure) of KK Guan stores increased from 9.8% in the ten months ended October 31, 2022 to 19.0% in the ten months ended October 31, 2023 primarily due to increase in operating margin during the same period.

OUR RETAIL BUSINESS MODEL

We serve customers through our self-owned stores and franchise stores which we have managed through the relevant store management arrangements. See "— Self-owned Stores and Franchise Stores — Key Terms of Franchising Arrangement."

During the Track Record Period, we generated our revenue primarily from (i) sale of goods, primarily comprising retail sales in our self-owned stores and sales to the franchise stores, and (ii) sales-based management and consultation service income. The following table sets forth a breakdown of our revenue by source, and each source's contribution to our total revenue for the periods indicated:

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Sale of goods										
Self-owned stores	581,845	35.5%	2,001,345	56.8%	2,270,520	64.0%	1,957,630	63.8%	3,726,036	78.1%
Franchise stores	946,548	57.5%	1,338,195	38.0%	970,817	27.3%	868,079	28.3%	636,694	13.4%
Online sales	25,443	1.5%	18,243	0.5%	149,766	4.2%	106,652	3.5%	273,991	5.7%
Other sales[(1)]	12,273	0.7%	31,966	0.9%	61,961	1.7%	54,509	1.8%	62,294	1.3%
Subtotal	**1,566,109**	**95.2%**	**3,389,749**	**96.2%**	**3,453,064**	**97.2%**	**2,986,870**	**97.4%**	**4,699,015**	**98.5%**
Sales-based management and consultation service income[(2)]	**79,795**	**4.8%**	**134,105**	**3.8%**	**97,887**	**2.8%**	**79,656**	**2.6%**	**70,262**	**1.5%**
Total	**1,645,904**	**100.0%**	**3,523,854**	**100.0%**	**3,550,951**	**100.0%**	**3,066,526**	**100.0%**	**4,769,277**	**100.0%**

Notes:

(1) Primarily including revenue generated from bulk purchasing business with corporate customers.

(2) Primarily including fees we charged franchisees according to store management agreements for management and consultation services, such as store management fees, logistics charges and POS charges to our franchisees.

OUR RETAIL STORE NETWORK

We have accumulated our insightful views and understanding about the retail industry, and have identified and engaged business partners with entrepreneurial spirit who recognize and have trust in our brand synergies, carefully selected store site and merchandise, as well as refined interior and exterior decoration, ensuring a stable cooperative relationship promoting mutual benefits. Throughout the years, we have built stable and trustworthy relationships with our minority shareholders in our non-wholly owned stores and franchisees operating both stores with investment and those without investment.

The table below sets forth the store number by store types as of the dates indicated:

	As of December 31,			As of October 31,
	2020	**2021**	**2022**	**2023**
Self-owned Stores				
Wholly owned stores[(1)]	78	81	547	606
Non-wholly owned stores[(1)]	54	283	46	9
Subtotal	**132**	**364**	**593**	**615**
Franchise Stores				
Franchise stores with investment	338	276	60	38
Franchise stores without investment	86	81	54	71
Subtotal	**424**	**357**	**114**	**109**
Total	**556**	**721**	**707**	**724**

Notes:

(1) For details on conversion of franchise stores into self-owned stores and non-wholly owned stores into wholly owned stores, please see "— Store Network Optimization Initiatives" and "History, Reorganization and Corporate Structure — Major Acquisitions, Disposals and Mergers — Acquisitions of Joint Ventures and Non-wholly Owned Subsidiaries."

For more details on the reasons underlying the movement in the number of self-owned stores and franchise stores, see "— Self-owned Stores and Franchise Stores."

The following map illustrates the geographical coverage of our retail store network in China as of October 31, 2023.

We prioritize opening new stores in shopping malls, offering an all-under-one-roof experience while allowing us to access a steady flow of customers. When selecting locations for our new stores, we consider various factors, including among others, foot traffic in the shopping malls, neighborhood residents' purchasing power and their spending patterns, non-compete considerations such as stores of the same brand in the neighborhood, as well as rentals and other costs. For details, see "— Network Management and Operations."

We have adopted a comprehensive set of measures in developing and optimizing our store network, in the way to maintain an appropriate balance between effective prevention of cannibalization and promotion of necessary competition among different stores, in particular, those of same retail brand. We set out overall store development plan across different retail brands based on our business development target, budget and prevailing economic conditions in China. We further prepare general store development plan in a specific region by studying various factors, including level of status and future trend of urbanization, population, economic development, competition, available location and qualified cooperating candidates. Our team then further conduct feasibility study on each potential store by looking into respective location's advantages and challenges in terms of logistics arrangement, consumption habit of neighborhood, pedestrian flow direction or cross spots, and, in particular, specifications of stores within a radius of 3,000 meters to candidate stores, including our existing stores, taking into account various factors, particularly population density and average disposable income of consumers within such radius. We also invest in designing different stores with distinguished features to stand out from peers and promote its ability to attract and retain customers, including layout of store shelves, floor plan and key products to be featured at prominent places.

In particular, we determine the physical distances amongst new retail stores and existing ones under the same brand and different brands based on market analysis and strategic evaluation of our major competitors' store locations. In general, we place our KKV, THE COLORIST and X11 stores at shopping malls enjoying prominent locations. By leveraging our existing advantages and successful track record of relevant shopping malls, to secure proper development of our stores, we may consider opening additional retail stores under different brands in same or nearby shopping malls to promote brand synergies and to ensure sufficient customer visits for the profitable growth of a new retail store. To cater to the high demand of our products in certain areas, additional retail stores under the same brand may be opened in proximity to the existing retail stores with an appropriate distance, subject to further detailed evaluation and judgments as to customer traffic, market demands, customer positioning, spending power and other factors pertinent to the determination of store locations. As of the Latest Practicable Date, we did not experience any material disputes caused by cannibalization with respect to retail stores under same or different brands targeting the same or similar customer groups within same or nearby commercial districts where the stores are situated.

The following table sets forth our revenue breakdown by store brand and each brand's contribution to our total revenue for the periods indicated:

	Year Ended December 31,						Ten Months Ended October 31,			
Revenue	**2020**		**2021**		**2022**		**2022**		**2023**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(Unaudited)			
KKV	**834,734**	**50.7%**	**2,235,379**	**63.4%**	**2,362,134**	**66.5%**	**2,034,247**	**66.3%**	**3,270,393**	**68.6%**
Self-owned stores	317,213	19.3%	1,301,683	36.9%	1,586,560	44.7%	1,363,663	44.4%	2,653,711	55.7%
Franchise stores	517,521	31.4%	933,696	26.5%	775,574	21.8%	670,584	21.9%	616,682	12.9%
THE COLORIST	**439,729**	**26.7%**	**853,102**	**24.2%**	**598,402**	**16.9%**	**530,529**	**17.3%**	**756,307**	**15.9%**
Self-owned stores	159,600	9.7%	508,324	14.4%	414,145	11.7%	354,968	11.6%	717,446	15.1%
Franchise stores	280,129	17.0%	344,778	9.8%	184,257	5.2%	175,561	5.7%	38,861	0.8%
X11	**12,840**	**0.8%**	**159,389**	**4.5%**	**239,634**	**6.7%**	**214,395**	**7.0%**	**304,828**	**6.4%**
Self-owned stores	11,605	0.7%	144,103	4.1%	239,634	6.7%	214,395	7.0%	304,828	6.4%
Franchise stores	1,235	0.1%	15,286	0.4%	–	–	–	–	–	–
KK Guan[(1)]	**320,885**	**19.5%**	**225,775**	**6.4%**	**139,054**	**3.9%**	**126,194**	**4.1%**	**101,464**	**2.1%**
Self-owned stores	93,427	5.7%	47,235	1.3%	30,181	0.8%	24,604	0.8%	50,051	1.0%
Franchise stores	227,458	13.8%	178,540	5.1%	108,873	3.1%	101,590	3.3%	51,413	1.1%
Others[(2)]	**37,716**	**2.3%**	**50,209**	**1.5%**	**211,727**	**6.0%**	**161,161**	**5.3%**	**336,285**	**7.0%**
Total	**1,645,904**	**100.0%**	**3,523,854**	**100.0%**	**3,550,951**	**100.0%**	**3,066,526**	**100.0%**	**4,769,277**	**100.0%**

Notes:

(1) The decreasing trend in revenue of KK Guan since 2020 is primarily due to store closures which were caused primarily by the upgrade of our brand portfolio and our relocation of strategic resources between its retail brands, with a focus on development of KKV and THE COLORIST brands in line with our overall store network synergy strategy.

(2) Primarily including revenue generated from online sales and bulk purchasing business with corporate customers. See "— Online Sales."

Our Retail Store Performance

The following table sets forth the contribution to our results of operations from the stores under our four retail brands for the periods indicated:

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	**2021**	**2022**	**2022**	**2023**
				(Unaudited)	
Revenue (RMB in million)	1,608.1	3,473.6	3,339.2	2,905.3	4,433.0
Operating profit[(1)] (RMB in millions)	121.3	289.9	63.2	131.6	865.2
Operating margin[(2)]	7.5%	8.3%	1.9%	4.5%	19.5%
EBITDA (a non-HKFRS measure)[(3)] (RMB in million)	320.9	718.9	668.8	595.0	1,252.5
EBITDA margin (a non-HKFRS measure)[(4)]	20.0%	20.7%	20.0%	20.5%	28.3%

Notes:

(1) We define our overall operating profit of the stores under our four retail brands as revenue deducting our operational costs incurred at store level, including (i) cost of goods sold, (ii) staff costs, (iii) depreciation of right-of-use assets and other rental related expense, (iv) depreciation and amortization of other assets, (v) daily operating expenses and (vi) relevant central management as well as logistic and warehouse expenses allocated to stores.

(2) Operating margin of the stores under our four retail brands was calculated by operating profit divided by revenue for the same period and multiplied by 100.0%.

(3) EBITDA (a non-HKFRS measure) of the stores under our four retail brands represents total of operating profit of the stores after adding back depreciation of property, plant and equipment and depreciation of right-of-use assets at store-level.

(4) EBITDA margin (a non-HKFRS measure) of the stores under our four retail brands was calculated by EBITDA (a non-HKFRS measure) divided by revenue for the same period.

Same Store Sales

In calculating same store sales, we took into account those stores that opened for (i) at least 300 days in both 2020 and 2021, (ii) at least 300 days in both 2021 and 2022, or (iii) at least 250 days in both the ten months ended October 31, 2022 and 2023, respectively.

The following table sets forth the details of our same store sales in terms of GMV by store type during the Track Record Period.

	Year Ended December 31,		Year Ended December 31,		Ten Months Ended October 31,	
	2020	2021	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Self-owned stores						
Wholly-owned self-owned stores	183,184	189,990	445,824	411,826	797,624	981,125
Non-wholly owned self-owned stores	116,551	107,180	22,416	19,543	27,196	33,949
Subtotal	**299,735**	**297,170**	**468,240**	**431,369**	**824,821**	**1,015,074**
Franchise stores						
Franchise stores with investment	289,300	287,614	57,983	52,564	41,666	48,584
Franchise stores without investment	103,551	102,844	14,918	15,338	135,839	154,704
Subtotal	**392,851**	**390,458**	**72,901**	**67,901**	**177,504**	**203,288**
Total	**692,586**	**687,627**	**541,141**	**499,270**	**1,002,325**	**1,218,361**

The following table below sets forth the details of our same store sales in terms of GMV by retail brand during the Track Record Period.

	Year Ended December 31,		Year Ended December 31,		Ten Months Ended October 31,	
	2020	2021	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
KKV	460,519	453,682	365,286	339,156	788,705	944,451
THE COLORIST	79,285	77,010	148,483	135,182	171,030	220,261
X11	6,544	10,487	–	–	24,054	34,386
KK Guan	146,238	146,448	27,372	24,932	18,536	19,263
Total	**692,586**	**687,627**	**541,141**	**499,270**	**1,002,325**	**1,218,361**

In 2020 and 2021, the number of same stores for calculating same store sales was 94, comprising 41 KKV stores, 12 THE COLORIST stores, one X11 store and 40 KK Guan stores. In 2021 and 2022, the number of same stores for calculating same store sales was 78, comprising 44 KKV stores, 25 THE COLORIST stores and nine KK Guan stores. In the ten months ended October 31, 2022 and 2023, the number of same stores for calculating same store sales was 159, comprising 100 KKV stores, 47 THE COLORIST stores, six X11 stores and six KK Guan stores.

From 2020 to 2021, our same store sales decreased slightly by 0.7%, primarily because (i) among the 41 KKV stores, the sales performance of 22 stores generally decreased in 2021 compared with 2020 mainly because certain stores had unsatisfactory customer traffic primarily due to (a) high vacancy rate in the relevant shopping malls where the stores were situated, (b) road construction around the shopping malls where the stores were located, or (c) certain stores in or around the closed-loop management areas in response to the COVID-19 pandemic; and (ii) sales in the 12 THE COLORIST in 2021 were adversely affected since the pandemic control measures and mask wearing policy as well as prolonged effects of the COVID-19 pandemic further deterred end consumers' demand for cosmetics and willingness to have immerse shopping experiences in offline stores.

From 2021 to 2022, our same store sales generally decreased by 7.7%, mainly because of the pandemic control measures which adversely affected foot traffic of our same stores in 2022. For more details on the impact of COVID-19 pandemic, please see "Summary — Impact of COVID-19 Pandemic on Our Business."

Our same store sales generally increased by 21.6% in the ten months ended October 31, 2023 compared with the ten months ended October 31, 2022, mainly because (i) customer traffic in our same stores improved and (ii) the demand for satisfying shopping experiences rose after the pandemic control measures were lifted since January 2023.

Average Spending per Transaction

Average spending per transaction is calculated as total GMV generated throughout all our retail stores in operation for the respective periods divided by the sum of number of transactions recorded in our IT system throughout all our retail stores for each month for the respective periods.

The following table sets forth the breakdown of average spending per transaction by retail brand during the Track Record Period.

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
			(RMB)		
Average spending per transaction					
KKV	62	57	59	58	57
THE COLORIST	94	96	92	92	91
X11	154	160	151	150	124
KK Guan	52	42	43	43	43
Overall[1]	**66**	**63**	**64**	**64**	**62**

Note:

(1) Overall average spending per transaction refers to the average spending per transaction throughout all our four retail brands, amounting to the total GMV throughout all retail stores under all four retail brands divided by the sum of number of transactions throughout all retail stores for each month for the respective periods.

Average spending per transaction for KKV stores decreased from RMB62 in 2020 to RMB57 in 2021 primarily because we launched more stores in tier-two and lower tier cities in absolute number and a percentage of our total number of stores in 2021, where customers generally have different purchasing preference in terms of pricing, compared with that of residents in tier-one cities. Average spending per transaction for KKV stores increased from RMB57 in 2021 to RMB59 in 2022 which we believe is within the normal fluctuation scope in our business operation. Average spending per transaction for KKV stores decreased from RMB58 in the ten months ended October 31, 2022 to RMB57 in the ten months ended October 31, 2023 which we believe is within the normal fluctuation scope in our business operation.

Average spending per transaction for THE COLORIST stores increased from RMB94 in 2020 to RMB96 in 2021 primarily because we managed to launch more sought-after products in 2021, particularly those carrying high margin, leveraging our capability in product identification and selection. Average spending per transaction for THE COLORIST stores decreased from RMB96 in 2021 to RMB92 in 2022 primarily because we launched more THE COLORIST stores in tier-two and lower tier cites in absolute number and a percentage of our total number of stores during the same period. Average spending per transaction for THE COLORIST stores decreased from RMB92 in the ten months ended October 31, 2022 to RMB91 in the ten months ended October 31, 2023, which we believe is within the normal fluctuation scope in our business operation.

Average spending per transaction for X11 increased from RMB154 in 2020 to RMB160 in 2021 primarily due to brand recognition and normalization of sales during the ramp-up period. Average spending per transaction for X11 stores decreased from RMB160 in 2021 to RMB151 in 2022 primarily because (i) we launched more X11 stores in tier-two and lower tier cities in absolute number and a percentage of our total number of stores and (ii) delivery of many merchandise featured in X11 stores particularly those with high value and high retail price was delayed since our national distribution center in Shanghai, where most of our products featured in X11 stores were stored, was temporarily closed down from late March 2022 to late May 2022. Average spending per transaction for X11 stores decreased from RMB150 in the ten months ended October 31, 2022 to RMB124 in the ten months ended October 31, 2023 primarily because there were more X11 stores in tier-two and lower tier cities in absolute number and a percentage of our total number of stores.

Average spending per transaction for KK Guan stores decreased from RMB52 in 2020 to RMB42 in 2021 primarily because we launched more stores in tier-two and lower tier cities in absolute number and a percentage of our total number of stores in 2021. Average spending per transaction for KK Guan stores increased from RMB42 in 2021 to RMB43 in 2022 which we believe is within the normal fluctuation scope in our business operation.

Number of Transactions

The following table sets forth the details of total number of transactions counted by orders made and recorded in our IT system by retail brand during the Track Record Period.

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
Total number of transactions (#)					
KKV	18,521,489	50,406,949	52,532,358	46,125,464	72,812,795
THE COLORIST	6,415,002	11,622,365	8,856,526	7,925,278	9,713,901
X11	90,095	983,175	1,670,336	1,504,070	2,683,584
KK Guan	9,224,916	8,250,247	5,103,487	4,670,285	3,365,471
Total	**34,251,502**	**71,262,736**	**68,162,707**	**60,225,097**	**88,575,751**

Total number of transactions for KKV stores increased from 18,521,489 in 2020 to 50,406,949 in 2021 and then to 52,532,358 in 2022, primarily due to expansion of KKV store network with the number of KKV stores increasing from 202 as of December 31, 2020 to 337 as of December 31, 2021 and then to 383 as of December 31, 2022. Total number of transactions for KKV stores increased from 46,125,464 in the ten months ended October 31, 2022 to 72,812,795 in the ten months ended October 31, 2023, primarily because (i) the number of KKV stores increased from 366 as of October 31, 2022 to 421 as of October 31, 2023 and (ii) customer traffic improved after the adverse effects of the COVID-19 pandemic subsided.

Total number of transactions for THE COLORIST stores increased from 6,415,002 in 2020 to 11,622,365 in 2021, primarily due to the increase of the number of THE COLORIST stores from 229 as of December 31, 2020 to 248 as of December 31, 2021. Total number of transactions for THE COLORIST stores decreased from 11,622,365 in 2021 to 8,856,526 in 2022, primarily due to reduced customer traffic, shortened operation hours and temporary store closures caused by pandemic control measures and mask wearing requirement in response to the recurrence of the COVID-19 pandemic or its variants in 2022 and decrease in the number of THE COLORIST stores from 248 as of December 31, 2021 to 207 as of December 31, 2022. Total number of transactions for THE COLORIST stores increased from 7,925,278 in the ten months ended October 31, 2022 to 9,713,901 in the ten months ended October 31, 2023, primarily because customer traffic improved after the adverse effects of the COVID-19 pandemic subsided.

Total number of transactions for X11 stores increased from 90,095 in 2020 to 983,175 in 2021, primarily due to the growth of our brand awareness and recognition, and the increase in number of X11 stores from four as of December 31, 2020 to 35 as of December 31, 2021. Total number of transactions for X11 stores increased from 983,175 in 2021 to 1,670,336 in 2022, primarily due to the increase of the number of X11 stores from 35 as of December 31, 2021 to 50 as of December 31, 2022. Total number of transactions for X11 stores increased from 1,504,070 in the ten months ended October 31, 2022 to 2,683,584 in the ten months ended October 31, 2023, primarily because customer traffic improved after the adverse effects of the COVID-19 pandemic subsided.

Total number of transactions for KK Guan stores decreased from 9,224,916 in 2020 to 8,250,247 in 2021 and then to 5,103,487 in 2022, primarily due to decrease in store number from 121 as of December 31, 2020 to 101 as of December 31, 2021 and then to 67 as of December 31, 2022. Total number of transactions for KK Guan stores decreased from 4,670,285 in the ten months ended October 31, 2022 to 3,365,471 in the ten months ended October 31, 2023, primarily because the number of KK Guan stores decreased from 75 as of October 31, 2022 to 39 as of October 31, 2023.

Average Monthly Number of Transactions Per Store

Average monthly number of transactions per store is calculated by dividing the aggregate number of transactions by average of the store number as of the beginning and as of the end of a particular period, and by the aggregate number of months of operation of such retail stores during the same period.

The following table sets forth the details of average monthly number of transactions per store by retail brand during the Track Record Period.

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
Average monthly number of transactions per store (#)					
KKV	13,025	15,587	12,160	13,122	18,113
THE COLORIST	4,530	4,061	3,244	3,461	4,593
X11	4,095	4,202	3,275	3,539	5,477
KK Guan	5,302	6,194	5,063	5,307	6,350
Overall[1]	**7,443**	**9,301**	**7,955**	**8,470**	**12,380**

Note:

(1) Overall average monthly number of transactions per store refers to average monthly number of transactions per store throughout all our four brands, amounting to the total number of transactions under all our four brands divided by average of the total store number as of the beginning and as of the end of a particular period and the total number of months of operation of all four brands during the same period.

Average monthly number of transactions per store for KKV stores increased from 13,025 in 2020 to 15,587 in 2021, primarily due to the growth of our brand awareness and recognition. Average monthly number of transactions per store for THE COLORIST stores decreased from 4,530 in 2020 to 4,061 in 2021, primarily due to pandemic control measures and mask wearing requirement in response to the outbreak of COVID-19 pandemic or its variants since early 2020 and more incidents of closed-loop management in various cities where the stores were located in China in 2021, given the fact that we had more extensive store network in 2021, resulting in lower demand for cosmetics, shortened operation hours and reduced customer traffic.

Average monthly number of transactions per store for X11 stores increased from 4,095 in 2020 to 4,202 in 2021, primarily due to the growth of our brand awareness and recognition. Average monthly number of transactions per store for KK Guan stores increased from 5,302 in 2020 to 6,194 in 2021, primarily because we managed to launch more sought-after product categories with a focus on snack foods in 2021, in response to customers' purchasing preferences in terms of pricing, due to more stores opened in tier-two and lower tier cities in absolute number and a percentage of our total number of stores in 2021.

Average monthly number of transactions per store for our four retail brands decreased from 2021 to 2022, primarily caused by temporary business suspension of various stores across China in 2022 as a result of adverse effects of the COVID-19 pandemic, where approximately 80.7% of total number of KKV stores, 85.5% of total number of THE COLORIST stores, 92.0% of total number of X11 stores and 83.6% of total number of KK Guan stores as of December 31, 2022 were temporarily closed for approximately 26.0 days, 25.9 days, 32.6 days and 38.5 days on average in 2022, respectively.

Average monthly number of transactions per store for our four retail brands increased from the ten months ended October 31, 2022 to the same period of 2023, primarily because the customer traffic generally improved after the adverse effects of the COVID-19 pandemic had subsided since January 2023.

Average Monthly GMV Per Store

Average monthly GMV per store is calculated by dividing the aggregate GMV by average of the store number as of the beginning and as of the end of a particular period, and by the aggregate number of months of operation of such retail stores during the same period. After the adverse effects of the COVID-19 pandemic had subsided since January 2023, our average monthly GMV per store increased by 43.4% from RMB539.4 thousand in the ten months ended October 31, 2022 to RMB773.7 thousand in the ten months ended October 31, 2023.

The following table sets forth the details of our average monthly GMV per store by retail brand during the Track Record Period.

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Average monthly GMV per store					
KKV	813.3	893.4	714.0	762.3	1,038.2
THE COLORIST	427.1	390.3	298.7	318.4	418.5
X11	629.7	672.2	495.7	531.2	676.7
KK Guan	275.3	260.2	220.1	228.1	274.0
Overall[(1)]	**489.8**	**588.6**	**510.5**	**539.4**	**773.7**

Note:

(1) Overall average monthly GMV per store refers to average monthly GMV per store throughout four retail brands, amounting to the aggregate GMV for four retail brands divided by average of our total retail store number throughout our four retail brands as of the beginning and as of the end of a particular period, and by the aggregate number of months of operation of the stores under four retail brands during the same period.

Average monthly GMV per store for KKV stores increased from RMB813.3 thousand in 2020 to RMB893.4 thousand in 2021, primarily due to increase in average monthly number of transactions per store caused by the growth of our brand awareness and recognition. Average monthly GMV per store for KKV stores decreased from RMB893.4 thousand in 2021 to RMB714.0 thousand in 2022, primarily due to decrease in average monthly number of transactions per store. Average monthly GMV per store for KKV stores increased from RMB762.3 thousand in the ten months ended October 31, 2022 to RMB1,038.2 thousand in the ten months ended October 31, 2023, primarily due to increase in average monthly number of transactions per store.

Average monthly GMV per store for THE COLORIST stores decreased from RMB427.1 thousand in 2020 to RMB390.3 thousand in 2021, primarily due to decrease in average monthly number of transactions per store caused by pandemic control measures and mask wearing requirement in response to the outbreak of COVID-19 pandemic or its variants resulting in lower demand for cosmetics, shortened operation hours and reduced customer traffic. Average monthly GMV per store for THE COLORIST stores decreased from RMB390.3 thousand in 2021 to RMB298.7 thousand in 2022, primarily due to decrease in both average monthly number of transactions per store and average spending per transaction. Average monthly GMV per store for THE COLORIST stores increased from RMB318.4 thousand in the ten months ended October 31, 2022 to RMB418.5 thousand in the ten months ended October 31, 2023, primarily due to increase in average monthly number of transactions per store.

Average monthly GMV per store for X11 stores increased from RMB629.7 thousand in 2020 to RMB672.2 thousand in 2021, primarily due to increase in average monthly number of transactions per store caused by the growth of our brand awareness and recognition. Average monthly GMV per store for X11 stores decreased from RMB672.2 thousand in 2021 to RMB495.7 thousand in 2022, primarily due to decrease in both average monthly number of transactions per store and average spending per transaction. Average monthly GMV per store for X11 stores increased from RMB531.2 thousand in the ten months ended October 31, 2022 to RMB676.7 thousand in the ten months ended October 31, 2023, primarily due to increase in average monthly number of transactions per store.

Average monthly GMV per store for KK Guan stores decreased from RMB275.3 thousand in 2020 to RMB260.2 thousand in 2021, primarily due to decrease in average spending per transaction under KK Guan brand from RMB52 in 2020 to RMB42 in 2021, partially offset by the increase in average monthly number of transactions per store from 2020 to 2021. Average monthly GMV per store for KK Guan stores decreased from RMB260.2 thousand in 2021 to RMB220.1 thousand in 2022, primarily due to decrease in average monthly number of transactions per store. Average monthly GMV per store for KK Guan stores increased from RMB228.1 thousand in the ten months ended October 31, 2022 to RMB274.0 thousand in the ten months ended October 31, 2023, primarily due to increase in average monthly number of transactions per store.

Ramp-up Period

According to the Frost & Sullivan Report, in order for a retail store in China focusing on the lifestyle products to go through the ramp-up period, it normally needs continuous business operations of two to three years without significant disruption. Under normal circumstances, the factors affecting the length of the ramp-up period include the location of a store, the competition around such store and the brand awareness in the local market. The adverse effects of the COVID-19 pandemic significantly disrupted the business operations of many offline retailers in China, including our Group, during the Track Record Period. As the adverse effects of the COVID-19 pandemic had subsided since January 2023, we expect that the stores' ramp-up period will generally be in line with the industry norm going forward, without counting the period during the COVID-19 pandemic.

The following table sets forth average monthly GMV per store in China by year of opening and store type for the periods indicated.

	Year Ended December 31,			Ten Months Ended October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Average monthly GMV per store				
Year of Opening				
Before 2020	**391.7**	**425.8**	**458.5**	**712.0**
Self-owned stores	559.3	628.5	703.1	858.7
Franchise stores	346.3	363.9	284.6	470.3
In 2020	**575.5**	**612.4**	**515.6**	**807.5**
Self-owned stores	568.3	841.6	618.4	803.0
Franchise stores	577.8	471.3	290.9	840.8
In 2021	**–**	**646.0**	**453.9**	**668.9**
Self-owned stores	–	704.0	597.5	696.3
Franchise stores	–	584.6	134.5	429.1
In 2022	**–**	**–**	**579.3**	**662.8**
Self-owned stores	–	–	582.8	671.3
Franchise stores	–	–	522.9	494.1
Total	**488.6**	**585.8**	**490.8**	**731.2**

Stores Opened Before 2020

As of October 31, 2023, 41 stores opened before 2020 were in operation, comprising 26 self-owned stores and 15 franchise stores. These stores' rich product portfolio, store designs and shelf display have enhanced our brand image and attracted more customer traffic to our new stores.

Stores Opened in 2020

As of October 31, 2023, 254 stores opened in China in 2020 were in operation, comprising 228 self-owned stores and 26 franchise stores.

Stores Opened in 2021

As of October 31, 2023, 216 stores opened in China in 2021 were in operation, comprising 197 self-owned stores and 19 franchise stores.

Stores Opened in 2022

As of October 31, 2023, 80 stores opened in China in 2022 were in operation, comprising 77 self-owned stores and three franchise stores.

There were three newly opened KKV stores in Indonesia in 2020 which had the average monthly GMV per store of RMB953.7 thousand, RMB1,219.7 thousand, RMB2,011.2 thousand and RMB2,183.2 thousand in 2020, 2021 and 2022 and the ten months ended October 31, 2023, respectively. There were four newly opened KKV stores in Indonesia in 2021 which had the average monthly GMV per store of RMB1,618.0 thousand, RMB1,813.3 thousand and RMB1,984.8

thousand in 2021 and 2022 and the ten months ended October 31, 2023, respectively. There were 13 newly opened KKV stores in Indonesia in 2022 which had the average monthly GMV per store of RMB1,374.8 thousand and RMB2,486.7 thousand in 2022 and the ten months ended October 31, 2023, respectively.

KKV stores in Indonesia had a higher average monthly GMV per store than those in China primarily due to local customer preference and spending pattern, as well as our competitive advantages in such market. See "— Our Retail Brands — KKV — KKV Stores in Indonesia."

Store Economics

We believe that the stores under our four retail brands offer attractive economics. During the Track Record Period, it generally took a store (either a self-owned store or franchise store)(1):

a. approximately two months to reach the initial breakeven point (being the first month for the revenue of a newly opened store to at least equal to its operational cost (including cost of goods sold, rental, staff and utility costs, as well as depreciation and amortization)) (the "**Breakeven Point**"); and

b. approximately 16 to 24 months to reach the investment payback point(2) which is defined as the average length of time required to recoup the capital expenditures to open a retail store (the "**Investment Payback Point**"). It is calculated as (i) the aggregate amount of capital expenditures incurred to open a retail store during respective periods, divided by (ii) the aggregate amount of store-level operating profit adding back depreciation and amortization related to our fixed assets in the relevant stores recorded after their openings.

Notes:

(1) We only consider stores in operation as of the end of each period of the Track Record Period. See "— Self-owned Stores and Franchise Stores — Movement in the Number of Self-owned Stores" and "— Self-owned Stores and Franchise Stores — Movement in the Number of Franchise Stores."

(2) We excluded the store-level operating profit for the first month of a new store opening since a store did not operate for a full month during the first month of opening.

The length of time required for a store to achieve the Investment Payback Point generally takes longer than the initial Breakeven Point since it takes time for a particular store to accumulate sufficient operating profit on a cash basis to cover the costs to open a store. Once a store achieves initial breakeven and begins generating profits, the store must continue to generate profits for such time until its cumulative profits exceed its costs of opening.

The length of time required for a store to reach the Breakeven Point or the Investment Payback Point is affected by a variety of factors, including, among others, the type, size, location and opening time of the store, the expenditures of securing the location for the store, the economic and other conditions in the market in which the store operates, and competition. Such time varies substantially from store to store and over time. It is possible that a store may not reach the Breakeven Point or the Investment Payback Point until after a prolonged period of time, or at all. See "Risk Factors — Risks Relating to Our Business and Industry — We may not be able to effectively manage the growth of our store network."

Loss-making Stores

We define the loss-making stores as stores that were in operation during a relevant period and had net operating loss in the relevant period. We include both self-owned stores and franchise stores when calculating the number of loss-making stores. The following table sets forth the number of loss-making stores as of December 31, 2020, 2021 and 2022 and October 31, 2023 and their losses incurred in 2020, 2021 and 2022 and the ten months ended October 31, 2023, respectively.

	Year Ended/As of December 31,			Ten Months Ended/As of October 31,
	2020	2021	2022	2023
Number of loss-making stores				
by brand				
KKV	30	37	68	15
THE COLORIST	58	71	115	24
X11	2	15	35	8
KK Guan	36	25	30	4
Total[(1)]	**126**	**148**	**248**	**51**
by store type				
Self-owned stores	46	90	224	47
Franchise stores	80	58	24	4
Total	**126**	**148**	**248**	**51**
by year of opening				
Stores opened before 2020	39	21	17	–
Stores opened in 2020	87	69	123	17
Stores opened in 2021	–	58	76	10
Stores opened in 2022	–	–	32	7
Stores opened in the ten months ended October 31, 2023	–	–	–	17
Total	**126**	**148**	**248**	**51**
Operating losses incurred by the loss-making stores (RMB in thousands)				
by brand				
KKV	(7,509.8)	(26,539.9)	(59,605.2)	(5,466.4)
THE COLORIST	(24,596.3)	(41,639.8)	(49,881.8)	(2,455.0)
X11	(439.4)	(14,277.0)	(69,454.2)	(3,202.1)
KK Guan	(10,612.2)	(5,386.9)	(5,481.4)	(548.0)
Total	**(43,157.7)**	**(87,843.6)**	**(184,422.5)**	**(11,671.4)**
by store type				
Self-owned stores	(21,091.3)	(55,002.5)	(176,897.4)	(11,127.2)
Franchise stores	(22,066.4)	(32,841.1)	(7,525.1)	(544.3)
Total	**(43,157.7)**	**(87,843.6)**	**(184,422.5)**	**(11,671.4)**
by year of opening				
Stores opened before 2020	(12,681.6)	(9,683.5)	(6,358.0)	–
Stores opened in 2020	(30,476.1)	(47,819.0)	(83,291.2)	(5,409.1)
Stores opened in 2021	–	(30,341.1)	(75,982.0)	(2,844.6)
Stores opened in 2022	–	–	(18,791.4)	(2,017.3)
Stores opened in the ten months ended October 31, 2023	–	–	–	(1,400.5)
Total	**(43,157.7)**	**(87,843.6)**	**(184,422.5)**	**(11,671.4)**

Note:

(1) Out of these loss-making stores as of the end of each of the corresponding periods, 91, 94, 81 and nil of them had been closed as of November 30, 2023. These stores were closed primarily because (i) certain stores were in the ramp-up period which was disrupted by the adverse effects of the COVID-19 pandemic; and (ii) certain stores did not perform satisfactorily primarily due to several non-exclusive factors such as competition and residents' changing preferences.

The losses incurred by these loss-making stores in 2020, 2021 and 2022 were primarily because their sales performance was adversely affected by one or more of the following reasons:

(i) the adverse effects of the COVID-19 pandemic,

(ii) being a new store opened in the relevant period,

(iii) being a store which was still in the ramp-up period,

(iv) the weak customer traffic in the shopping mall where a relevant store was, and

(v) the weak customer traffic due to the nearby road construction.

In the ten months ended October 31, 2023, although the adverse effects of the COVID-19 pandemic subsided, the other reasons above were still applicable to our loss-making stores.

Among the 248 loss-making stores in 2022, (i) 133 stores were no longer loss-making stores in the ten months ended October 31, 2023, (ii) 34 stores were still loss-making stores in the ten months ended October 31, 2023 due to the above reasons, and (iii) 81 stores were closed as of November 30, 2023.

Store Closure's Financial Impact

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, we closed 19, 39, 62 and 87 self-owned stores, respectively. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, 44, 90, 60 and 11 franchise stores were closed, respectively. See "— Self-owned Stores and Franchise Stores — Self-owned Stores — Movement in the Number of Self-owned Stores" and "— Self-owned Stores and Franchise Stores — Franchise Stores — Movement in the Number of Franchise Stores."

When we decide to close a self-owned store, we generally consider (i) historical loss sustained in the store, (ii) the expiration of the lease, and the rent cost compared with an alternative store site, and (iii) the estimated customer traffic in the near future, based on the customer traffic in the previous year and any new factors affecting customer traffic, such as planned road construction nearby and new stores nearby opened by competitors. When a franchisee decides to close a franchise store, they generally consider the above factors, as well as their own strategic and commercial judgments.

Store closure's financial impact is primarily reflected in losses/(gains) from store closures which had been recorded as administrative and other operating expenses under our consolidated results of operations. See "Financial Information — Description of Select Consolidated Statements of Comprehensive Income Line Items — Administrative and Other Operating Expenses."

The table below sets forth the breakdown of losses/(gains) from store closures for the periods indicated.

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Losses from disposal of property, plant and equipment	2,479	25,157	31,535	25,661	61,743
Gain from termination of lease contracts on store closures	–	(15,181)	(25,199)	(28,652)	(78,455)
Amounts/loans due from franchisees which were written off	11,439	32,652	22,948	11,479	2,583
Loss on rental deposit upon store closure	540	60	2,698	2,492	18,555
Compensation from landlord	–	–	(8,536)	(8,536)	–
Others	3,361	174	613	613	–
Total	**17,819**	**42,862**	**24,059**	**3,057**	**4,426**

Losses/(gains) from store closures are not material compared with our total revenue. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, losses from store closures as a percentage of our revenue was 1.1%, 1.2%, 0.7% and 0.1%, respectively. The average length of leases for these stores closed during the Track Record Period was approximately 25.6 months. See "— Lease Arrangement."

We record a gain from termination of lease contracts on store closures because the carrying amounts of lease liabilities exceed the carrying amounts of the right-of-use assets when the relevant stores were closed. This is primarily because the carrying amounts of the lease liabilities are measured on an amortized cost basis while the carrying amounts of the right-of-use assets are measured at cost less accumulated depreciation and impairment losses upon the lease termination.

Loss on rental deposit upon store closure primarily represents the rental deposits forfeited as a result of early termination of leases. In case of early termination, we generally negotiate with the relevant lessors regarding the amount of compensation on a case-by-case basis. Among all the self-owned stores closed prior to the expiry date of leases during the Track Record, (i) for approximately 50% of them, we paid compensation to the relevant lessors in the form of forfeiting a portion of rental deposits we lodged in connection with the leased properties, and (ii) for the remaining 50% of them, we were not required by the relevant lessors to pay any compensation after commercial negotiations.

SELF-OWNED STORES AND FRANCHISE STORES

The table below sets forth a breakdown of the store number by store type.

	As of December 31,						As of October 31, 2023	
	2020		2021		2022			
	Number of stores	%	Number of stores	%	Number of stores	%	Number of stores	%
KKV								
Self-owned stores	54	9.7%	185	25.7%	329	46.5%	348	48.1%
Franchise stores	148	26.6%	152	21.1%	54	7.6%	73	10.1%
THE COLORIST								
Self-owned stores	59	10.6%	135	18.7%	188	26.6%	206	28.5%
Franchise stores	170	30.6%	113	15.7%	19	2.7%	10	1.4%
X11								
Self-owned stores	3	0.5%	35	4.9%	50	7.1%	48	6.6%
Franchise stores	1	0.2%	–	–	–	–	–	–
KK Guan								
Self-owned stores	16	2.9%	9	1.2%	26	3.7%	13	1.8%
Franchise stores	105	18.9%	92	12.8%	41	5.8%	26	3.6%
Total	**556**	**100.0%**	**721**	**100.0%**	**707**	**100.0%**	**724**	**100.0%**
Self-owned stores	132	23.7%	364	50.5%	593	83.9%	615	84.9%
Franchise stores	424	76.3%	357	49.5%	114	16.1%	109	15.1%

The following table summarizes the various features of (i) wholly-owned stores, (ii) non-wholly owned stores, (iii) franchise stores with investment, and (iv) franchise stores without investment.

	Wholly-owned stores	Non-wholly owned stores	Franchise stores with investment[1]	Franchise stores without investment[2]
Entity that set up the stores	Our wholly-owned subsidiary	Non-wholly owned subsidiary in which we hold 51% of the shares and the minority shareholder holds 49% of the shares	(i) The joint venture in which we hold 50% of the shares and the franchisee holds 50% of the shares sets up the joint venture stores; and (ii) The individual franchisee sets up the transitional stores.	The franchisee
Amount of initial capital	Initial capital primarily reflects capital expenditure incurred in connection with (i) payment for property, plant and equipment and (ii) leasehold improvements relating to new store openings and refurbishment of existing stores. The amount of initial capital required for a store depends on factors such as store size, decoration and store location.			
Initial capital contribution	100% from us	51% from us and 49% from the minority shareholder	50% from us and 50% from the franchisee	100% from the franchisee
Role of partner	Not applicable	The minority shareholder acts as a financial investor	(i) In the joint venture stores, the franchisee has 50% of the voting right regarding key decisions in daily store operation: • store location for store opening; • a new lease or amendments in existing lease; • staff employment; • merchandise selection and pricing based on our suggested retail price with adjustment of no more than 5%; and • any store closure plan. (ii) In the transitional stores, other than the store location which both the franchisee and we agree upon, the franchisee has full discretion regarding the above key decisions and can seek for our non-mandatory advice.	The franchisee has full discretion regarding key decisions in daily store operation: • Franchisee shall make cautious decision regarding store location based on the local business environment and its commercial insights pursuant to the franchise agreement. The franchisee can seek for our non-mandatory advice; • Franchisee directly enters into lease agreement and decides key terms; • Franchisee has the discretion to decide employment of staff; • Franchisee decides merchandise selection and pricing based on our suggested retail price with adjustment of no more than 5%; and • Franchisee decides any store closure plan.
			In addition, the franchisee has right to review store operational costs and expenses and seek clarification or details of such costs and expenses.	
Our role	We are in charge of all the matters for daily store operation.		We provide management and consultation service.	
Effects on our results of operations	100% of the following line items generated or incurred by the stores are consolidated into our results of operations: (i) revenue, (ii) cost of sales, and (iii) selling and distribution expenses.		— **Revenue** • 50% to 60% of the total GMV (a fixed rate irrespective of product types and selling price) generated by stores represent the revenue that we generated from these stores as payment for goods that we supply to these stores; and • No more than 10% of the total GMV (a fixed rate irrespective of product types and selling price) generated by stores represent the revenue that we generated from these stores as management and consultation fee that we charge these stores.	
			— **Share of (loss)/profit** • For joint venture stores, we are entitled to share of (loss)/profit from joint ventures; or • For transitional stores, we record 50% of the stores' operating results as revenue.	Not applicable
Attribution of (loss)/profit for the year/period	100% attributable to us	• 51% attributable to us • 49% attributable to the minority shareholder	Not applicable	Not applicable

Notes:

(1) As of the Latest Practicable Date, all of the franchise stores with investment were set under respective joint ventures except for nine transitional stores still in the process of completing the business registration. See "— Self-owned Stores and Franchise Stores — Franchise Stores with Investment."

(2) Not applicable to KKV stores in Indonesia. See "— Our Retail Brands — KKV."

Self-owned Stores

The following table sets forth the revenue breakdown of our self-owned stores by store type during the Track Record Period.

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 *(Unaudited)*	RMB'000
Self-owned stores					
Wholly-owned stores	478,096	541,063	790,140	534,141	3,577,872
Non-wholly owned stores[1]	103,749	1,460,282	1,480,380	1,423,489	148,164
Total	**581,845**	**2,001,345**	**2,270,520**	**1,957,630**	**3,726,036**

Note:

(1) For more details on intra-group transactions and non-controlling interests, please see note 2(d) to the Accountants' Report included as Appendix I to this document.

The following table sets forth our gross profits and gross profit margins of our self-owned stores during the Track Record Period.

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 *(Unaudited)*	%	RMB'000	%
Self-owned stores										
Wholly owned stores	229,103	47.9%	259,176	47.9%	402,103	50.9%	253,582	47.5%	1,865,852	52.1%
Non-wholly owned stores	51,694	49.8%	714,921	49.0%	737,211	49.8%	709,043	49.8%	75,648	51.1%
Total	**280,797**	**48.3%**	**974,097**	**48.7%**	**1,139,314**	**50.2%**	**962,625**	**49.2%**	**1,941,500**	**52.1%**

Movement in the Number of Self-owned Stores

The following table sets forth the changes in the number of our self-owned stores as of the dates and for the periods indicated.

	Year Ended/As of December 31,			Ten Months Ended/As of October 31,
	2020	2021	2022	2023
Self-owned Stores				
KKV				
As of the beginning of the year/period	10	54	185	329
Addition of new stores	44	84	49	25
Number of self-owned stores converted from franchise stores[1]	–	56	113	7
Closure of stores	–	(9)	(18)[2]	(13)
Net increase/(decrease) in the number of stores	44	131	144	19
As of year-end/period-end	54	185	329	348
THE COLORIST				
As of the beginning of the year/period	6	59	135	188
Addition of new stores	53	33	13	55
Number of self-owned stores converted from franchise stores[1]	–	62	75	8
Closure of stores	–	(19)	(35)	(45)
Net increase/(decrease) in the number of stores	53	76	53	18
As of year-end/period-end	59	135	188	206
X11				
As of the beginning of the year/period	–	3	35	50
Addition of new stores	3	30	16	7
Number of self-owned stores converted from franchise stores[1]	–	3	–	–
Closure of stores	–	(1)	(1)	(9)
Net increase/(decrease) in the number of stores	3	32	15	(2)
As of year-end/period-end	3	35	50	48
KK Guan				
As of the beginning of the year/period	31	16	9	26
Addition of new stores	2	–	–	–
Number of self-owned stores converted from franchise stores[1]	2	3	25	7
Closure of stores	(19)	(10)	(8)	(20)
Net increase/(decrease) in the number of stores	(15)	(7)	17	(13)
As of year-end/period-end	16	9	26	13
Total Self-owned Stores				
As of the beginning of the year/period	47	132	364	593
Addition of new stores	102	147	78	87
Number of self-owned stores converted from franchise stores[1]	2	124	213	22
Closure of stores	(19)	(39)	(62)	(87)
Net increase/(decrease) in the number of stores	85	232	229	22
As of year-end/period-end	132	364	593	615

Notes:

(1) See "— Store Network Optimization Initiatives."

(2) Including the eight KKV stores in Indonesia converted into franchise stores through our disposal of 80% of the shares in PT KKV Retail Indonesia on July 1, 2022. See "— Our Retail Brands — KKV — KKV Stores in Indonesia."

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, we opened 102, 147, 78 and 87 new self-owned stores, respectively. The numbers of new self-owned stores decreased in the Track Record Period primarily because (i) we had become more selective in opening self-owned stores, and (ii) we slowed down store opening in 2022 and early 2023, considering the adverse effects of the COVID-19 pandemic. This is consistent with our store network expansion plan. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, we closed 19, 39, 62 and 87 self-owned stores, respectively. The reasons for closing these stores include (i) the adverse effects of the COVID-19 pandemic, (ii) the weak customer traffic in the relevant shopping mall, (iii) the weak customer traffic due to the nearby road construction, (iv) competition in the nearby shopping mall, and (v) customers' changing preferences.

To the best of our knowledge, none of the minority shareholders of our non-wholly owned stores had any pre-existing or present relationships, including, without limitation, business, employment, family, financing, trust or otherwise, with our Group, their shareholders, directors or senior management, or any of their respective associates, except for being minority shareholders in our non-wholly owned subsidiaries, during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge, none of the non-wholly owned subsidiaries were subject to any potential or actual litigations, claims or other disputes, contingent liabilities or other commitments in any material respects.

Franchise Stores

We entered into franchising arrangements with the relevant franchisees to achieve faster expansion and preferred regional penetration. Given that business environment and culture vary from region to region in China and as we expand into certain cities, the relevant franchisees with better understanding of the local business environment and closer cooperation or established relationship with local shopping malls in these cities will be able to help us conduct store site selection and lease negotiation with the lessors more efficiently. As such, these franchisees can help secure premium store locations, and provide local business network and resources such as getting us the opportunities to participate in promotional activities held by the shopping malls to attract customer traffic in the stores.

From franchise stores, we generate revenue mainly by (i) selling goods to franchise stores, and (ii) charging franchise stores sales-based management and consultation service fee.

The following table sets forth a breakdown of our revenue from the franchise stores by source for the periods indicated below.

	Year ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 (*Unaudited*)	RMB'000
Sales to franchise stores					
– Payment for goods	936,263	1,313,514	963,457	859,572	632,251
– Entitlement to transitional stores' operating results[(1)]	10,285	24,681	7,360	8,507	4,443
Sales-based management and consultation service income	79,795	134,105	97,887	79,656	70,262
Total revenue from franchise stores	**1,026,343**	**1,472,300**	**1,068,704**	**947,735**	**706,956**

Note:

(1) It represents approximately 50% of the operating results of transitional stores, one of the two types of franchise stores with investment. See "— Franchise Stores with Investment."

The following table sets forth a breakdown of our revenue from the franchise stores by store type for the periods indicated below.

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 (*Unaudited*)	RMB'000
Franchise stores with investment	833,266	1,296,093	832,363	792,862	214,258
Franchise stores without investment	193,077	176,207	236,341	154,873	492,698
Total	**1,026,343**	**1,472,300**	**1,068,704**	**947,735**	**706,956**

The following table sets forth the franchise stores' contribution to our gross profit and gross profit margin by store type for the periods indicated.

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (*Unaudited*)	%	RMB'000	%
Franchise stores with investment	178,449	21.4%	319,449	24.6%	182,452	21.9%	180,277	22.7%	57,043	26.6%
Franchise stores without investment	29,671	15.4%	25,066	14.2%	43,567	18.4%	21,050	13.6%	113,827	23.1%
Total	**208,120**	**20.3%**	**344,515**	**23.4%**	**226,019**	**21.1%**	**201,327**	**21.2%**	**170,870**	**24.2%**

From 2020 to 2022, franchise stores with investment generally had a higher gross profit margin than that of those without investment, mainly because we typically choose to have an investment arrangement for stores which may have stronger sales performance based on our estimation. Such stores typically require intensive capital investment or are at prominent locations. In line with our store development strategy, such arrangement serves as a mutual-benefit mechanism to enhance cooperation and devotion to ensure optimized store operations and/or to better cope with relevant challenges. From 2020 to 2022, compared with KK Guan, there were more KKV and THE COLORIST stores with investment in both absolute number and as a percentage. KKV and THE COLORIST stores generally had a higher margin primarily due to brand recognition, merchandise portfolio and location advantages. In the ten months ended October 31, 2023, the gross profit margin of franchise stores without investment approaches that of franchise stores with investment because there were more KKV stores without investment in both absolute number and as a percentage of the total number of franchise stores. See "— Movement in the Number of Franchise Stores," and "Financial Information — Description of Select Consolidated Statements of Comprehensive Income Line Items — Gross Profit and Gross Profit Margin."

Movement in the Number of Franchise Stores

The following table sets forth the changes in the number of franchise stores as of the dates and for the periods indicated.

	Year Ended/As of December 31,			Ten Months Ended/As of October 31,
	2020	2021	2022	2023
Franchise Stores				
KKV				
As of the beginning of the year/period	25	148	152	54
Addition of new stores	124	71	24[(2)]	27[(3)]
Number of franchise stores converted into self-owned stores[(1)]	–	(56)	(113)	(7)
Closure of stores	(1)	(11)	(9)	(1)
Net increase/(decrease) in the number of stores	123	4	(98)	19
As of year-end/period-end	148	152	54	73
THE COLORIST				
As of the beginning of the year/period	1	170	113	19
Addition of new stores	170	30	2	–
Number of franchise stores converted into self-owned stores[(1)]	–	(62)	(75)	(8)
Closure of stores	(1)	(25)	(21)	(1)
Net increase/(decrease) in the number of stores	169	(57)	(94)	(9)
As of year-end/period-end	170	113	19	10
X11				
As of the beginning of the year/period	–	1	–	–
Addition of new stores	1	2	–	–
Number of franchise stores converted into self-owned stores[(1)]	–	(3)	–	–
Closure of stores	–	–	–	–
Net increase/(decrease) in the number of stores	1	(1)	–	–
As of year-end/period-end	1	–	–	–

	Year Ended/As of December 31,			Ten Months Ended/As of October 31,
	2020	2021	2022	2023
KK Guan				
As of the beginning of the year/period	138	105	92	41
Addition of new stores	11	44	4	1
Number of franchise stores converted into self-owned stores[1]	(2)	(3)	(25)	(7)
Closure of stores	(42)	(54)	(30)	(9)
Net increase/(decrease) in the number of stores	(33)	(13)	(51)	(15)
As of year-end/period-end	105	92	41	26
Total Franchise Stores				
As of the beginning of the year/period	164	424	357	114
Addition of new stores	306	147	30	28
Number of franchise stores converted into self-owned stores[1]	(2)	(124)	(213)	(22)
Closure of stores	(44)	(90)	(60)	(11)
Net increase/(decrease) in the number of stores	260	(67)	(243)	(5)
As of year-end/period-end	424	357	114	109

Notes:

(1) See "— Store Network Optimization Initiatives."

(2) Including (i) eight KKV stores in Indonesia converted into franchise stores since July 1, 2022, and (ii) 12 KKV stores newly open in Indonesia in the second half of 2022. See "— Our Retail Brands — KKV — KKV Stores in Indonesia."

(3) Including 19 KKV stores in Indonesia.

The following table sets forth the number of franchise stores by store type and retail brand as of the dates indicated.

	As of December 31,			As of October 31,
	2020	2021	2022	2023
Number of franchise stores				
KKV				
Franchise stores with investment	148	151	33	26
Franchise stores without investment	–	1	21	47
THE COLORIST				
Franchise stores with investment	170	112	19	10
Franchise stores without investment[1]	–	1	–	–
X11				
Franchise stores with investment	1	–	–	–
Franchise stores without investment[1]	–	–	–	–
KK Guan				
Franchise stores with investment	19	13	8	2
Franchise stores without investment	86	79	33	24
Total	**424**	**357**	**114**	**109**

Note:

(1) During the Track Record Period, we rarely let franchisees have 100% ownership in THE COLORIST and X11 stores because beauty products and pop toys typically require us to be more involved in merchandise selection, primarily due to customers' ever changing taste.

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, there were 306, 147, 30 and 28 franchise stores newly opened, respectively. The numbers of new franchise stores decreased in the Track Record Period primarily because we slowed down store opening in 2022 and early 2023, considering the adverse effects of the COVID-19 pandemic. This is consistent with our store network expansion plan and store network optimization initiatives. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, 44, 90, 60 and 11 franchise stores were closed. The reasons for closing these stores include (i) the adverse effects of the COVID-19 pandemic, (ii) the weak customer traffic in the relevant shopping mall, (iii) the weak customer traffic due to the nearby road construction, (iv) competition in the nearby shopping mall, (v) customers' changing preferences and (vi) the expiration of the franchise agreements or the leases of some stores.

The table below sets forth the number of closed franchise stores by store type in 2020, 2021 and 2022.

	Year Ended December 31,		
	2020	**2021**	**2022**
Number of franchise stores closed			
Franchise stores with investment	2	49	37
Franchise stores without investment	42	41	23
Total	**44**	**90**	**60**

The decision to close any of the franchise stores was not made at our sole discretion. Closing a joint venture store was subject to 50% voting rights of the relevant franchisee. Closing a transitional store was generally at the discretion of the relevant franchisee. Closing a franchise store without investment was also at the discretion of the relevant franchisee. The factors affecting whether to close a franchise store include historical and predicted sales performance of the relevant franchise store and the prolonged COVID-19 impact.

During the Track Record Period, we did not, and had no obligation to, compensate franchisees for franchise stores closed since such closures were made neither at our sole discretion nor for the purpose of our store network optimization initiatives.

Movement in the Number of Franchisees

The following table sets forth the changes in the number of franchisees in the periods indicated:

	Year Ended/As of December 31,			Ten Months Ended/As of October 31,
	2020	2021	2022	2023
Franchisees				
At the beginning of the period	79	85	65	39
New franchisees	26	18	4	12
Franchising relationship terminated[1]	20	38	30[2]	12[3]
At the end of the period	85	65	39	39

Notes:

(1) Including certain franchisees who have become minority shareholders of the non-wholly owned subsidiaries in line with our store network optimization initiatives. See "— Store Network Optimization Initiatives."

(2) Including four franchisees who transferred 50% of the shares in our four joint ventures respectively to us from October 2022 to December 2022.

(3) Including one franchisee who transferred 50% of the shares in one joint venture to us in the ten months ended October 31, 2023. See "History, Reorganization and Corporate Structure — Major Acquisitions, Disposals and Mergers — Acquisitions of Joint Ventures and Non-wholly Owned Subsidiaries" and "— Store Network Optimization Initiatives."

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, we terminated franchising relationship with 20, 38, 30 and 12 franchisees, primarily because (i) relevant stores failed to perform satisfactorily and/or relevant franchisees determined to pursue other business based on their own business judgment; (ii) relevant franchisees subsequently became minority shareholders in our non-wholly owned subsidiaries pursuant to our store network optimization initiatives; and (iii) five franchisees transferred their 50% equity interests in five joint ventures to us from October 2022 to October 2023. See "— Store Network Optimization Initiatives."

As of October 31, 2023, we had 39 franchisees, comprising:

(i) 16 franchisees, including seven corporations and nine individuals, only operating stores with investment,

(ii) 21 franchisees, including one corporation and 20 individuals, only operating stores without investment, and

(iii) two individual franchisees operating both types of franchise stores.

Franchisee Selection

Working with capable franchisees is critical to our business growth. We carefully select our franchisees based on a number of criteria, including (i) their capability in securing premium location in local area, their local knowledge and resources, (ii) commitment to our corporate culture and brand concept, (iii) financial capability, (iv) entrepreneurship, and (v) motivation.

During the Track Record Period, we became acquainted with franchisees primarily through public venue such as our official websites and referrals from existing or former franchisees. We generally publish marketing materials and invitation to quality franchisees as well as our contact information on our official websites. After several rounds of negotiation with potential franchisees who meet our selection criteria, we and relevant franchisees may enter into standard franchising agreements.

To minimize the risk of cannibalization among our franchisees, we adopt the following measures: (i) monitoring and managing the number of franchisees in each designated geographical area; (ii) maintaining regular communication with our franchisees; and (iii) analyzing the sales volume in the franchise stores.

To the best of our knowledge, none of our franchisees had any pre-existing or present relationships, including, without limitation, business, employment, family, financing, trust or otherwise, with our Group, their shareholders, directors or senior management, or any of their respective associates, except for the franchising arrangement with us, during the Track Record Period.

Key Terms of Franchising Arrangement

There are two types of franchise stores: (i) franchise stores with investment and (ii) franchise stores without investment. Under franchise stores with investment, there are two types: (i) transitional stores and (ii) joint venture stores. See "— Franchise Stores with Investment."

For each of (i) transitional stores and (ii) stores without investment, we enter into franchise agreements with the franchisee. For each of joint venture stores, we enter into franchise agreements with the joint venture.

The below salient terms are standard terms for all types of franchise stores. For transitional stores, there are also certain additional terms. See "— Franchise Stores with Investment."

Management of the stores . .	We offer the relevant franchise stores management and consultation services, including sale of goods, logistics arrangement, shelf and cash management, store booking and accounting, as well as staff management and training. To ensure effective operation of franchise stores, we train and assign store managers to relevant franchise stores, and we also dispatch our employees to conduct routine onsite inspections. See "— Network Management and Operations — Store Management — Management of Franchise Stores" and "— Financial Support Provided to Franchisees — Advance Payment." The franchisees are generally responsible for consumer complaints and disputes regarding in-store staff's services and store layout.

Franchise term/duration. . . .	We grant the relevant store trademark license of our retail brands and franchise authorization. The duration of the franchising arrangement is generally three to 12 years renewable upon negotiation within 12 months prior to the expiry date.
Location	For each of (i) transitional stores and (ii) stores without investment, the franchisee generally enters into lease contracts directly with the lessor and is responsible for payment of rental expense. For each of joint venture stores, the joint venture where each of the relevant franchisee and us hold 50% of the shares, enters into lease contract with lessors. See "— Lease Arrangement."
Product offering	Franchisees may exercise discretion in merchandise selection while shall only offer our self-owned brand merchandise and third party brand merchandise supplied by us. We do not impose sales and performance targets for franchise stores.
Credit term	The payment made in the franchise stores will be directly deposited into a settlement account independently operated by a licensed financial institution, which will settle and remit respective entitled portion of the GMV to us and the relevant stores under the agreed timeframe. See "— Network Management and Operations — Cash Management."
Termination.	The agreement may be terminated if (i) both parties agree to terminate the agreement considering the sales performance of relevant franchise stores, (ii) in case of a franchise store without investment or a transitional store, a franchisee may decide to close a franchise store considering sales performance of relevant stores and its commercial judgment, or (iii) one party fails to perform any of its obligations under the franchising agreement and fails to rectify that breach within a prescribed time period.
Inventory and Sale of Goods	The goods we dispatch to franchise stores for sale are under our inventory ownership until the goods are sold to end customers. When end consumers make purchase in the franchise stores, legal title of the goods is transferred to franchisees and to end customers simultaneously, and the franchisees become obliged to pay for goods sold. As part of our franchising arrangement, franchisees have the right to request us to replace products with latent defects. During the Track Record Period, we incurred minimum amount of return by end customers and did not experience any material recall.
Licenses and permits	The franchisees (in case of transitional stores and franchise stores without investment) and the joint ventures (in case of joint venture stores) are responsible for obtaining all necessary licenses and permits such as business license and fire safety inspection permit prior to store opening.
Miscellaneous	As of October 31, 2023, there were six franchisees operating six transitional stores that were subject to a call-upon right in the franchising agreement, accounting for only 0.8% of our total number of stores. During the Track Record Period and up to the Latest Practicable Date, we did not exercise such right on any franchise stores. As of the Latest Practicable Date, we had no such plan to exercise such right on the remaining six stores.

The call-upon right refers to the right for us, without obligation, to call upon the relevant franchisee to transfer its assets in the relevant stores to us, according to the price determination formula set out in the relevant agreement, subject to mutual agreement between the relevant franchisee and us, either within three years after such store commenced business operations, or should the relevant franchisee fail to successfully carry out its obligations under the relevant agreement.

The price is determined through multiplying the monthly store-level net profit for the six months prior to such transfer of shares by the months the affected store has been in operation prior to such transfer.

We consider such call-upon right as executory clause which was not recognized in our consolidated financial statements primarily because (i) such right is subject to our exercise and we did not exercise it during the Track Record Period and as of the Latest Practicable Date, (ii) such right under which we can buy store assets for own use can not be settled net in cash, (iii) the underlying store assets are not readily convertible into cash, and (iv) we are not obliged to exercise such right and such right does not meet the recognition criteria for non-financial assets.

According to the Frost & Sullivan Report, such call-upon arrangement and similar price determination formula are generally in line with the industry norm.

To ensure a disciplined and effective coordination of our store management system, the franchise stores, comprising (i) transitional stores, (ii) joint venture stores and (iii) franchise stores without investment, follow substantially the same internal guidelines and policies as our self-owned stores. See "— Network Management and Operations — Store Management — Management of Franchise Stores."

According to Frost & Sullivan, such franchising arrangements are generally in line with the industry norm.

Franchise Stores with Investment

There are two types of franchise stores with investment: (i) transitional stores, and (ii) joint venture stores:

- **Transitional stores** were set up by individual franchisees to promptly secure good store locations for our retail store network. Each of the franchisee and us contributed 50% of the initial capital expenditure in the transitional stores. Both the franchisees and we expected transitional stores to become (i) joint venture stores, or (ii) non-wholly owned stores upon entering into such preliminary arrangement. Such arrangement is consistent with the respective contribution of the initial capital expenditure and gave the franchisees and us time to consider the details of the business arrangements between the franchisees and us. For more details on the process regarding transitional stores becoming joint ventures or non-wholly owned stores, please see "— Transitional Stores."

- **Joint venture stores** are franchise stores which are owned and operated by a joint venture where each of the relevant franchisee and us hold 50% of the shares.

The table below sets forth the movement of the number of franchise stores with investment as of the dates indicated below.

	Year ended/As of December 31,			Ten Months ended/As of October 31,
	2020	2021	2022	2023
At the beginning of the period	**38**	**338**	**276**	**60**
transitional stores	38	254	74	18
joint venture stores	–	84	202	42
New stores	**302**	**109**	**14**	**–**
transitional stores	230	15	–	–
joint venture stores	72	94	14	–
Closure of stores	**2**	**49**	**37**	**2**
transitional stores	2	32	11	–
joint venture stores	–	17	26	2
Transitional stores converted into joint venture stores	**12**	**43**	**13**	**1**
Franchise stores converted into self-owned stores	**–**	**122**	**193**	**20**
transitional stores converted into non-wholly owned stores	–	118	9	–
transitional stores converted into wholly owned stores	–	2	23	5
joint venture stores converted into non-wholly owned stores	–	–	–	–
joint venture stores converted into wholly owned stores	–	2	161	15
At the end of the period	**338**	**276**	**60**	**38**
transitional stores	254	74	18	12
joint venture stores	84	202	42	26

The number of transitional stores decreased during the Track Record Period primarily because (i) transitional stores were converted into self-owned stores by asset acquisition, and (ii) transitional stores were converted into joint venture stores. The number of joint venture stores decreased from 202 as of December 31, 2021 to 26 as of October 31, 2023 primarily because (i) joint venture stores were converted into self-owned stores by equity acquisition and (ii) the number of new stores decreased since we had become more selective in opening stores, and we slowed down store opening in 2022 and early 2023 considering the adverse effects of the COVID-19 pandemic. See "— Store Network Optimization Initiatives."

Each of the franchisee and us contributed 50% of the initial capital expenditure in either a transitional store or a joint venture store. As of December 31, 2020, 2021 and 2022 and October 31, 2023, our investment in franchise stores with investment (comprising (i) transitional stores and (ii) joint venture stores) was RMB266.4 million, RMB214.6 million, RMB43.7 million and RMB34.7 million, respectively. For details on franchisees' investment by funding sources, please see "Financial Support Provided to Franchisees."

Notwithstanding our investment in the form of initial capital expenditure, we did not have any equity shares in these transitional stores while we have 50% of shares in these joint venture stores. See "— Transitional Stores — Accounting Treatment regarding Transitional Stores."

We invested in these stores through arm's length negotiation with the relevant franchisees. Such investment benefited us by enhancing our business relationship with franchisees who have resources and commitment to doing business with us. We focus on stores that are at key locations serving large customer groups or have strong growth potential. We believe that our franchisees also benefit from our investment that provides liquidity to them and leads to a stronger alignment of interests.

The table below sets forth our revenue breakdown from franchise stores with investment for the periods indicated.

	Year ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Sales to franchise stores					
– Payment for goods	759,564	1,156,012	755,042	716,310	191,990
– Entitlement to transitional stores' operating results(1)	10,285	24,681	7,360	8,507	4,443
Sales-based management and consultation service income	63,417	115,400	69,961	68,045	17,825
Total revenue from franchise stores with investment	**833,266**	**1,296,093**	**832,363**	**792,862**	**214,258**

Note:

(1) It represents approximately 50% of the operating results of transitional stores. See "— Transitional Stores — Accounting Treatment regarding Transitional Stores."

During the Track Record Period and as of the Latest Practicable Date, we did not have any material disputes with any franchisees regarding (i) our investment to the relevant franchise stores, and (ii) the operation of the relevant franchise stores. We typically had a good working relationship with these franchisees. If we need to sort out any potential issue with a relevant franchisee, we typically take the following steps: (i) list out the pros and cons for all feasible solutions, (ii) propose a solution that worked well for other similar stores, (iii) analyze the solution's short-term and long-term effect on store operation, and (iv) consider the franchisee's main concern and adjust the solution accordingly.

Transitional Stores

Transitional stores were set up by individual franchisees to promptly secure good store locations for our retail store network. Each of the franchisee and us contributed 50% of the initial capital expenditure in the transitional stores. Both the franchisees and we expected transitional stores to become (i) joint venture stores, or (ii) non-wholly owned stores upon entering into such preliminary arrangement. Such arrangement is consistent with the respective contribution of the initial capital expenditure and gave the franchisees and us time to consider the details of the business arrangements between the franchisees and us.

In transitional stores, the store liabilities primarily include lease liabilities and staff costs payable. The franchisee is generally responsible for the store liabilities. The franchisee records the store liabilities into its financial statements while we do not record any store liabilities other than any outstanding initial capital expenditure to be paid by us.

Regarding the key decision-making in daily store operation, the franchisee has full discretion in (i) a new lease or amendments in the existing lease, (ii) staff employment, (iii) merchandise selection and pricing, and (iv) any store closure plan. The franchisee can also seek non-mandatory advice from us regarding the above key decisions.

Transitional stores are not accounted for as joint ventures and accordingly investment in these stores are not accounted for as investment in joint ventures, primarily because:

- there are no separate legal entities, namely joint ventures where the franchisee and we jointly hold shares. Transitional stores are wholly owned by the individual franchisees.

- the franchisee and we do not have joint control over the transitional stores. The above key decisions in daily store operations in transitional stores are at the full discretion of the franchisee rather than at the unanimous consent of both the franchisee and us. See "— Additional Terms in Franchise Agreement."

See "— Accounting Treatment regarding Transitional Stores."

Three Steps regarding Transitional Stores Becoming Joint Venture Stores or Non-wholly Owned Stores

There are mainly three steps for the process regarding transitional stores becoming **joint venture stores** or **non-wholly owned stores**:

- **Step One — Individual franchisee sets up transitional stores**

  To promptly secure good store locations, an individual franchisee commences lease negotiation, enters into the lease contract with the landlord and completes the business registration for a new store opening. These individual franchisees set up the stores through either (i) their respective privately and individually owned business (個體工商戶) in most cases or (ii) their respective wholly-owned limited liability companies (有限責任公司) in the other cases.

- **Step Two — Together with the franchisee, we set up the joint venture or our non-wholly owned subsidiary which will take over the transitional stores**

  The franchisees and we agree to determine the respective equity share percentages in the stores at Step Two instead of Step One. This is because both parties would like to first gain the experience working with each other so both parties can better understand the value that each of them can provide to store operation, including our ability to improve store sales and operation efficiency.

Based on the result of the commercial negotiation between a franchisee and us, the franchisee has two options:

A. We hold 50% and the franchisee holds 50% of the shares in the joint venture that will take over the transitional stores, and thus the transitional stores will become joint venture stores; or

B. We hold 51% and the franchisee holds 49% of the shares in our non-wholly owned subsidiary that will take over the transitional stores, and thus the transitional stores will become non-wholly owned stores.

During the Track Record Period, 12 franchisees chose option A, and 15 franchisees chose option B.

After determining the respective equity share percentages in the stores by both the franchisees and us, together with the franchisees, we set up the joint ventures or our non-wholly owned subsidiaries which will take over the respective transitional stores from the individual franchisees in Step Three below.

- **Step Three — Individual franchisee transfers transitional stores to the relevant joint venture or our non-wholly owned subsidiary**

  The transitional stores became joint venture stores or non-wholly owned stores through asset acquisition conducted by the joint ventures or us. See "— Becoming Joint Venture Stores" and "— Store Network Optimization Initiatives — Converting Franchise Store into Self-owned Store by Asset Acquisition."

  Regarding the stores' underlying premises, the joint venture or we need to (i) replace the individual franchisee to become the signing party of the lease, or (ii) enter into a new lease with the relevant landlord.

  To complete Step Three, the joint ventures or we need to submit all requisite documents required for the business registration including the new lease or the amended lease where the signing party is replaced with the joint venture or us.

Other than the remaining nine transitional stores still in the process of completing business registration, the time required to complete these three steps during the Track Record Period was approximately two to twelve months. See "— Becoming Joint Venture Stores." The average length of time required to complete the above three steps during the Track Record Period, namely the average duration of the transitional arrangement, was approximately nine months.

During the Track Record Period, we did not have any difficulty in cooperating with the franchisees to transfer transitional stores to the relevant joint ventures or our non-wholly owned subsidiaries. This is primarily because (i) both the franchisees and we have the common expectations regarding such preliminary arrangement and (ii) both the franchisees and we have mutual trust based on then-existing cooperations or any future plan to cooperate between the franchisees and us. As of the Latest Practicable Date, there were only nine transitional stores remaining in the process of completing business registration and we had no such plan to open any new transitional stores going forward. We did not adopt any particular internal control measures regarding the transitional arrangement other than the standard internal policies for store management. See "— Network Management and Operations — Store Management — Management of Franchise Stores."

For more details on transitional stores converted into **wholly owned stores**, see "— Store Network Optimization Initiatives — Converting Franchise Store into Self-owned Store by Asset Acquisition — Transitional Stores Converted into Wholly Owned Stores by Asset Acquisition."

According to the Frost & Sullivan, in China's offline-driven non-grocery retail market, the transitional arrangement above is not uncommon for the purpose of securing good store locations.

Becoming Joint Venture Stores

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, 12, 43, 13 and one transitional stores became joint venture stores. The transitional stores became joint venture stores through asset acquisition conducted by 12 joint ventures. In each of the 12 joint ventures, we have 50% of the shares and one franchisee has 50% of the shares.

Regarding the store assets of the transitional stores, the franchisee owns 50% of the store assets and we own 50% of the store assets. After such acquisition, the joint venture will own 100% of the store assets.

Each joint venture did not pay additional consideration other than the conversion of store assets into the investment from both the franchisee and us in the joint venture. The factors for determining consideration and nature of store assets are substantially the same as these asset acquisitions in relation to converting franchise stores into self-owned stores. See "— Store Network Optimization Initiatives — Converting Franchise Store into Self-owned Store by Asset Acquisition."

As of the Latest Practicable Date, all of the remaining nine transitional stores were still in the process of completing the business registration. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, the revenue contribution from these stores was RMB37.8 million, RMB40.4 million, RMB29.8 million and RMB30.9 million, accounting for 2.3%, 1.2%, 0.8% and 0.7% of our total revenue, respectively.

To complete the relevant business registration documents, the joint venture needs to (i) replace the individual franchisee to become the signing party of the lease for the store or (ii) enter into a new lease with the relevant landlord. This process requires a negotiation with the landlord and obtaining an approval from the landlord. It typically takes considerable time and effort from the joint venture to do so. There are practical difficulties to complete such process primarily because the relevant landlords were less incentivized to devote time and efforts to renegotiate and re-sign the lease agreements. Since the relevant landlords have stronger bargaining power considering the scarcity of good store locations, we may not be able to negotiate with them to complete their internal procedures within certain period of time. During the Track Record Period and as of the Latest Practicable Date, there were no material disputes between any of the relevant landlords and us.

Notwithstanding the above practical difficulties, as advised by our PRC Legal Advisers, there is no substantial legal impediment for these stores to complete business registration, assuming that the joint venture submits the complete business registration documents to the relevant governmental authorities in accordance with the applicable laws and regulations. See "Risk Factors — Risks Relating to Our Business and Industry — We may not complete the business registration for a certain number of transitional stores and thus may not obtain share of profits or may lose our initial investment in the relevant stores if they are loss-making or closed."

Becoming Non-wholly Owned Stores

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, nil, 118, nine and nil transitional stores became non-wholly owned stores, respectively. We were not required to and did not pay additional consideration for our extra 1% of the store assets when these transitional stores became non-wholly owned stores. See "— Store Network Optimization Initiatives — Converting Franchise Store to Self-owned Store by Asset Acquisition — Transitional Store Converted into Non-wholly Owned Store by Asset Acquisition."

Additional Terms in Franchise Agreement

For transitional stores, we entered into a set of franchise agreements which contain the standard terms and certain additional terms. For more details on the standard terms, see "– Key Terms of Franchising Arrangement." The additional key terms include:

- Each of the franchisee and us contributes 50% of the initial capital expenditure in the store.
- Each of the franchisee and us is entitled to 50% of the store's operating results.
- The store's operating results are calculated as follows: 100% of GMV generated in the store deducted by:
    - o 50% to 60% of GMV as payment for goods which we supply to the store,
    - o No more than 10% of GMV as management and consultation fee which we charge the store for our management and consultation services, and
    - o Operational expenses incurred at the store level.
- The entitlement to the store's operating results is settled on a monthly basis.

The table below sets forth the operating results of **transitional stores** for the periods indicated.

	Year ended December 31,			Ten Months Ended October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Sales of goods[(1)]	1,120,171	1,080,095	450,307	152,807
Cost of sales[(2)]	652,038	629,163	264,066	89,285
Operating results[(3)]	20,570	49,362	14,719	8,886

Notes:

(1) Sales of goods represent 100% of GMV generated by the store.

(2) Cost of sales represents 50% to 60% of GMV as payment for goods we supply to the store.

(3) Operating results derive from sales of goods (100% of GMV) deducted by (i) cost of sales which represents 50% to 60% of GMV as payment for goods we supply to the store, (ii) management and consultation fee which represents no more than 10% of GMV for our management and consultation services, and (iii) operational expenses primarily including rental expenses, staff costs and other utilities expenses incurred by the store.

Accounting Treatment regarding Transitional Stores

The table below sets forth the details of our accounting treatment and presentation in our consolidated financial statements regarding transitional stores during and after the transitional arrangement.

Line Items in Our Consolidated Financial Statements	During the Transitional Arrangement	After the Transitional Arrangement	
		Becoming joint venture stores	Becoming self-owned stores
Property, plant and equipment	We contributed 50% of the initial capital expenditure in the store. We record such investment as property, plant and equipment.	N/A	We record 100% of the initial capital expenditure (deducted by the depreciation charge on the property, plant and equipment incurred during the transitional arrangement as below) as property, plant and equipment.
Depreciation charge on the property, plant and equipment	We record depreciation charge on our property, plant and equipment as selling and distribution expenses.	N/A	We record depreciation charge on 100% of our property, plant and equipment as selling and distribution expenses.
Assets (other than property, plant and equipment)	Not recorded because other than property, plant and equipment we did not make any other contribution in the store	We record our investment in the store (deducted by the depreciation charge on the property, plant and equipment incurred during the transitional arrangement as above) as investment in joint ventures.	We record 100% of store assets primarily including property, plant and equipment, right-of-use assets, and bank deposits if any as the respective line items in our consolidated statements of financial position.
Liabilities	If there is any outstanding initial capital expenditure to be paid by us, we will record such outstanding amount as trade and other payables. Other than the above outstanding amount if any, we do not record any other store liabilities.	N/A	We record 100% of the store liabilities primarily including lease liabilities and staff costs payable as the respective line items in our consolidated statements of financial position.
Sales of goods	We record 50% to 60% of GMV generated by the store as sales to franchise stores under revenue.		We record 100% of GMV generated by the store as retail sales from self-owned stores under revenue
Entitlement to transitional stores' operating results	We record 50% of the store's operating results as sales to franchise stores under revenue.	N/A	N/A
Sales-based management and consultation service income	We record no more than 10% of GMV as our sales-based management and consultation service income.		Not recorded
Selling and distribution expenses	Other than the above depreciation charge, we do not record the store's operational expenses in our consolidated statements of profit or loss.	N/A	We record 100% of the store's operational expenses as selling and distribution expenses.
Share of (losses)/profit from joint ventures	N/A	We record 50% of the net profit from the joint venture which owns and operates the stores as our share of (losses)/profit from joint ventures.	N/A

Joint Venture Stores

As of December 31, 2020, 2021 and 2022 and October 31, 2023, we had nine, nine, 11 and 10 joint ventures which hold our joint venture stores. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, revenue contribution from those joint ventures was RMB129.3 million, RMB703.3 million, RMB607.3 million and RMB150.7 million, respectively. The revenue contribution from joint ventures is related to the number of joint venture stores in the Track Record Period. For details on the movement of the number of joint venture stores, please see "— Franchise Stores with Investment." To the best knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, none of these joint ventures was subject to any potential or actual litigations, claims or other disputes, contingent liabilities or other commitments in any material respect.

Pursuant to the articles of association of the joint venture, we hold 50% of the shares and the franchisee holds 50% of the shares in the joint venture. There was no restriction preventing the relevant franchisees from transferring their shares to any third parties. During the Track Record Period and up to the Latest Practicable Date, none of the relevant franchisees transferred their shares to any third party except that each of four franchisees transferred its 50% of the shares in one joint venture to another franchisee during the Track Record Period. Each of the above four franchisees and the franchisee who acquired the 50% of the shares in the joint venture were controlled by the same group of shareholders.

For joint venture stores, we entered into a set of franchise agreements which contain the standard terms. See "— Key Terms of Franchising Arrangement."

Financial Support Provided to Franchisees

During the Track Record Period, we extended financial support in the form of (i) loans to franchisees to facilitate their initial capital expenditure need primarily for new store openings and refurbishment of existing stores; and (ii) advance payment primarily (a) to make our daily store management more efficient by settling operational expenses in advance and subsequently collecting such amount from the relevant stores and (b) to support new stores in their ramp-up period which was disrupted primarily due to the impact of COVID-19 pandemic. See "Financial Information — Description of Select Consolidated Statements of Comprehensive Income Line Items — (Loss)/Profit from Operations."

The table below sets forth the details of the franchisees' investment in the franchise stores by their funding sources as of the dates indicated.

	As of December 31,			As of October 31,
	2020	2021	2022	2023
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Franchise stores with investment				
Internal resources	32.0	29.1	24.5	22.0
Loans to franchisees or advance payment	234.4	185.5	19.2	12.7
Subtotal of franchisees' investment in franchise stores with investment	**266.4**	**214.6**	**43.7**	**34.7**
Franchise stores without investment				
Internal resources	46.5	29.0	72.7	127.7
Loans to franchisees or advance payment	3.7	16.1	8.1	–
Subtotal of franchisees' investment in franchise stores without investment	**50.2**	**45.1**	**80.8**	**127.7**
Total investment from the franchisees	**316.6**	**259.7**	**124.5**	**162.4**

Our financial support is generally in line with our long-term vision on attracting and retaining franchisees with strong resources and commitment to do business with us. For details on commercial rationale for cooperating with franchisees, please see "— Franchise Stores." This is particularly important for us as we target sale of trendy lifestyle products, where customers' preference keeps evolving, while valuable offline properties suitable for developing relevant stores are scarce in nature. Considering the adverse effects of the COVID-19 pandemic from 2020 to 2022, we extended financial support for the franchisees' upfront investment in the stores and daily operation of the stores. We expected that such financial support would be kept at the minimum level after the adverse effects of the COVID-19 pandemic subsided. See "— Loans to Franchisees" and "— Advance Payment." We constantly review and modify our store management and financial support arrangements so that they are in line with our evolving and expanding business operations.

We have terminated extension of any new loans to franchisees since June 30, 2021. As of the date of this document, there was no outstanding balance of loans to franchisees. All of the outstanding balance of advance payment as of October 31, 2023 will be settled prior to the [**REDACTED**], except for the balance primarily due to routine advance and subsequent collection.

We have also enhanced our internal credit measures to ensure the repayment collection or settlement. We review the relevant franchisees' reputation and credibility, as well as their respective track record of performance on an ongoing basis under our financial support arrangements. We closely monitor the usage of the borrowings and advance payment to ensure that the actual usage is consistent with the initial applications made for relevant financial support. We may accelerate the repayment collection procedure if we are aware of any material adverse change to the operations of the relevant stores.

According to the Frost & Sullivan Report, the financial support in the form of loans and/or advance payment is in line with general practice in the retail industry in China where the franchisees benefit from a retail brand owner's expertise in business operation, while the retail brand owner can benefit from the franchisees' local resources.

Loans to Franchisees

Loans to franchisees primarily include (i) loans extended to franchisees and (ii) loans extended to minority shareholders, substantially all of whom were converted from our previous or current franchisees in line with our store network optimization. See "— Store Network Optimization Initiatives." The loans to franchisees were primarily used as initial capital expenditure for new store openings and refurbishment of existing stores during the Track Record Period. The specific amount of such loans to each franchisee or minority shareholder generally depends on the number of the relevant stores in need of initial capital and the average capital expenditure needed per store.

The total amount of loans to franchisees we extended in 2020 and the six months ended June 30, 2021 respectively substantially matched the total capital expenditures for relevant stores in the same periods. When considering the capital expenditure needed for one particular store, we take into account various factors primarily in relation to store startup, decoration, and other operation related expenses, with respect to floor plan, store size, store layout, interior design, and specifications, as well as requirements formulated by local government primarily including fire safety and air conditioning renovation.

Both franchisees and minority shareholders came to us directly in case of initial capital need for store opening and we generally extended loans directly to franchisees and minority shareholders who are generally responsible for repayment of loans. As of October 31, 2023, initial capital contribution from franchisees and minority shareholders was made primarily by means of their internal financial sources and/or loans to franchisees we extended. See "— Subsequent Settlement and Continuous Growth of Existing Stores Upon Repayment of Loans."

We generally require that franchisees and minority shareholders can only use proceeds from loans for operation of the relevant stores, primarily in relation to store start up, decoration and other opening related expenses. We may directly grant relevant franchisees a specific amount of loans where the franchisees can further allocate such proceeds among the relevant stores owned by them, which are primarily used as payment for lease and property management deposits.

Our loans to franchisees generally have an annual interest ranging from 10% to 12%, with the term of three years, and the interests are paid on a monthly basis. In practice, our franchisees and minority shareholders are entitled to repay part or all of the outstanding amounts at any time prior to the expiry of the loans, by means of their free cash or external financing subject to mutual agreements. All the interests due for our loans to franchisees during the Track Record Period had been fully settled as of October 31, 2023. The franchisees are required to update our management team with the usage of the borrowings on a regular basis. Leveraging on store management arrangement of relevant stores, we also closely monitor use of proceeds there and assess the performance of each relevant store on an ongoing basis to minimize our risk exposure.

In 2020, 2021, 2022 and the ten months ended October 31, 2023, there were 32, 23, five and two franchisees that owed interest-bearing loans to us, covering 351, 109, 12 and four franchise stores, respectively. A majority of the relevant franchisees owned both franchise stores with investment, as well as those stores without investment. In particular, as of October 31, 2023, among all franchisees with interest-bearing loan arrangement, one of them subsequently invested in our non-wholly owned subsidiaries as minority shareholders and still owned the relevant franchise stores. See "— Store Network Optimization Initiatives."

The table below sets forth the changes in the balance of loans to franchisees as of the dates indicated.

	Year Ended/As of December 31,			Ten Months Ended/As of October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Loans to franchisees				
Beginning of the year/period	34,776	271,999	81,909	9,540
Aggregate new loans	272,044	–	–	–
Aggregate repayment	(34,821)	(172,235)	(51,314)	(5,514)
Repayment through external financing	–	(157,936)	–	–
Repayment through set-off arrangement	–	–	(38,613)	(5,514)
Repayment through internal financial resources	(34,821)	(14,299)	(12,701)	–
Write-off for the amounts of loans to franchisees	–	(17,855)	(21,055)	–
End of the year/period	271,999	81,909	9,540	4,026

During the Track Record Period, we did not make any provision for doubtful debts for the amounts of loans to franchisees. We wrote off relevant amounts from loans to franchisees when there is no reasonable expectation of recovery.

Repayment Made Through External Financing

To the best of our knowledge, all of the external financing for the repayment of loans was obtained from an independent financing institution. There was no past or present relationship, including family, business, employment, financing, trust, shareholding or otherwise, between us and this financing institution, its shareholders, directors or senior management, or any of their respective associates. None of our Group, their respective shareholders, directors or senior management, or any of their respective associates provided any guarantee or any other form of securities, directly or indirectly, with respect to the financing provided by this financing institution.

To the best knowledge of our Directors, one of our major franchisees, Dongguan Yihao Equity Investment Partnership (Limited Partnership) (東莞市壹號股權投資合夥企業(有限合夥)) conducted a public search on third party financing institutions and decided to pick this financing institution primarily due to its favorable policies compared with others, including (i) no liquidated damages for early repayment, (ii) no security for extending loans, and (iii) lower loan interest rate. After successfully obtaining loans from this financing institution, other franchisees and minority shareholders generally follow the example and select the same financing institution as their external financing source to repay the loans to us.

To the best knowledge of our Directors, the salient terms of the loan arrangement between the relevant franchisees and this financing institution primarily include: (i) simple annual interest of 10.0%, (ii) equal installments of principal and interest, (iii) monthly repayment, and (iv) no security.

Repayment Through Set-off Arrangement

From October 2022 to December 2022, we completed equity acquisitions of four joint ventures and 10 non-wholly owned subsidiaries. Through such transactions, we increased our equity interest from 50% in these joint ventures and 51% in these non-wholly owned subsidiaries to 100%, respectively.

From October 2022 to December 2022, we carried out a set-off arrangement where the outstanding loan of RMB38.6 million was used as consideration for acquisitions of equity interests in three joint ventures and four non-wholly owned subsidiaries.

In the ten months ended October 31, 2023, we completed equity acquisitions of one joint venture and four non-wholly owned subsidiaries. Through such transactions, we increased our equity interest from 50% in this joint venture and 51% in these non-wholly owned subsidiaries to 100%, respectively.

In the ten months ended October 31, 2023, we carried out a similar set-off arrangement where (i) the outstanding loans of RMB3.5 million was used as consideration for equity acquisition in two non-wholly owned subsidiaries, and (ii) the outstanding loans of RMB2.0 million was used as consideration for asset acquisition of five franchise stores converted into self-owned stores.

See "History, Reorganization and Corporate Structure — Major Acquisitions, Disposals and Mergers — Acquisitions of Joint Ventures and Non-wholly Owned Subsidiaries" and "— Store Network Optimization Initiatives."

Repayment Through Internal Financial Resources

In 2020, 2021, 2022 and the ten months ended October 31, 2023, loans to franchisees of RMB34.8 million, RMB14.3 million, RMB12.7 million and nil was fully repaid by franchisees and minority shareholders by means of their free cash and/or operating profit generated by the relevant stores, respectively.

Subsequent Settlement and Continuous Growth of Existing Stores Upon Repayment of Loans

During the Track Record Period, loans to franchisees was fully settled for 294 stores where the loans was used primarily as the initial capital expenditures. Among these stores, (i) loans for 244 stores was fully repaid through external financing sought after by the relevant franchisees and their internal financial resources and (ii) loans for 50 stores was fully settled through the above set-off arrangement.

These stores' in-store sales performance on average before and after repayment was similar by comparing (i) GMV generated in these store on average for the first month when the loan was fully settled and (ii) the average monthly GMV generated in these stores on average between the next month after the loan was fully settled and October 2023.

As of the date of this document, there was no outstanding balance of loans to franchisees.

Legality of Loans to Franchisees

According to the General Lending Provisions (《貸款通則》) (the "**General Provisions**"), a regulation promulgated by the PBOC on June 28, 1996, no financing business involving lending or borrowing, or lending and borrowing in a disguised form, may be handled between enterprises without authorization. However, according to the Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the "**Judicial Interpretations on Private Lending Cases**"), borrowing agreements among companies are valid if extended for the purpose of financing production or business operations (except for the circumstances resulting in a void contract pursuant to Article 146, 153 and 154 of PRC Civil Code or Article 13 of the Judicial Interpretations on Private Lending Cases). In addition, the PRC courts will also support a company's claim for interest in respect of such a loan as long as the annual interest rate does not exceed four times the one-year loan prime rate, at the time when the contract is entered into, published on the 20th of every month by National Interbank Funding Center (全國銀行間同業拆借中心) with the authorization from the PBOC.

Considering that (i) lending is not our primary business, and the financial supports we provide to the relevant parties are for the purpose of sustainable development of business partners in our value chain, rather than making profit out of interest collection, (ii) the interest rates do not exceed the rate set out by the Judicial Interpretations on Private Lending Cases, (iii) the financial support arrangements are available to our franchisees and minority shareholders, instead of any random third parties, (iv) based on the interview conducted with the PBOC, for any borrowings among enterprises with actual transaction background and under loan contracts, the risk of being subject to penalty by the competent authorities is low, (v) as of the Latest Practicable Date, we did not receive any notice of claim or penalty relating to the loans to the relevant parties, and (vi) we require all the relevant parties to pay off the historical loans, and we reach into agreement that in the future business, all the relevant parties would apply for commercial loans from third-party financial institutions themselves, our PRC Legal Advisers are of the view that our above financial support to the relevant parties do not violate the applicable rules under Article 146, 153 and 154 of the PRC Civil Code (《中華人民共和國民法典》) or Article 13 of the Judicial Interpretations on Private Lending Cases, and the possibility of above financial support to the relevant parties being subject to penalty is low. See "Risk Factors — Risks Relating to Our Business and Industry — We are exposed to credit risks related to our trade and other receivables."

Advance Payment

During the Track Record Period, we made advance payment for various fees and expenses associated with store operations and opening on behalf of franchisees in respect of relevant franchise stores and certain minority shareholders in respect of relevant non-wholly owned stores. Such fees and expenses primarily included operation related expenses such as rental expense and staff cost, as well as initial store decoration and opening related expenses. We generally made subsequent settlement on advance payment with the relevant parties to collect portion of fees and expenses they are obliged on a regular basis during the Track Record Period.

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, we made advance payment to 221, 299, 92 and 47 franchise stores, respectively. As of October 31, 2023, we made advance payment to seven non-wholly owned stores. During the Track Record Period, we made advance payment to 51, 64, 33 and 28 franchisees, respectively, a minority of whom cover both franchise stores with investment, as well as those stores without investment. See "— Store Network Optimization Initiatives."

As of December 31, 2020, 2021 and 2022 and October 31, 2023, the outstanding balance of advance payment we extended was RMB138.5 million, RMB421.3 million, RMB60.9 million and RMB24.7 million, respectively. For details on changes in the balance of amounts due from franchisees and amounts due from joint ventures respectively, please see "Financial Information — Discussion of Certain Statements of Financial Position Items — Current Assets and Current Liabilities — Trade and Other Receivables."

Settlement or Repayment

The outstanding balance of advance payment decreased from RMB421.3 million as of December 31, 2021 to RMB60.9 million as of December 31, 2022 mainly due to (i) set-off arrangement where outstanding amounts due from franchisees of RMB254.9 million were used as consideration for acquisition of equity interests owned by the relevant franchisees and minority shareholders in four joint ventures and 10 non-wholly owned subsidiaries and (ii) the debt conversion arrangement. See "Financial Information — Discussion of Certain Statements of Financial Position Items — Current Assets and Current Liabilities — Trade and Other Receivables — Amounts Due from Joint Ventures."

The outstanding balance of advance payment decreased from RMB60.9 million as of December 31, 2022 to RMB24.7 million as of October 31, 2023, mainly due to set-off arrangement where outstanding amounts due from franchisees of RMB35.1 million were used as consideration for acquisition of equity interests in one joint venture and four non-wholly owned subsidiaries. See "History, Reorganization and Corporate Structure — Major Acquisitions, Disposals and Mergers — Acquisitions of Joint Ventures and Non-wholly Owned Subsidiaries" and "— Store Network Optimization Initiatives."

In 2021 and 2022 and the ten months ended October 31, 2023, for amounts due from franchisees, we recorded an impairment loss of RMB14.0 million, an impairment loss of RMB7.0 million, and a reversal of impairment loss of RMB3.0 million along with the settlement of the relevant balance, respectively. Such impairment loss represented the expected credit loss assessed by us after considering various factors, including length of store operation, store performance, amount of operating loss and existing market conditions.

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, RMB6.3 million, RMB30.4 million, RMB12.1 million and nil was written off from the amounts of advance payment, respectively, when there is no reasonable expectation of recovery.

All of the outstanding balance of advance payment as of October 31, 2023 will be settled prior to the [**REDACTED**], except for the balance primarily due to routine advance and subsequent collection.

We believes that such remaining amount of outstanding advance payment prior to the [**REDACTED**] is reasonable, and the advance payment does not materially and adversely affect our business operation because:

- Such amount is not material compared with our revenue. The outstanding balance of advance payment of RMB24.7 million as of October 31, 2023 as a percentage of our profit from operations in the ten months ended October 31, 2023 is only 6.6%;

- After the adverse effects of the COVID-19 pandemic had subsided since January 2023 and as we continue to implement measures to improve store operations, our average monthly GMV per store increased by 43.4% from RMB539.4 thousand in the ten months ended October 31, 2022 to RMB773.7 thousand in the ten months ended October 31, 2023;

- A large majority of the relevant stores that owed outstanding balance of advance payment to us as of October 31, 2023 achieved operating profit at store level in the ten months ended October 31, 2023;

- Along with the increasing GMV per store, the Company expects to have decreasing store-level operational expenses as a percentage of revenue per store; and

- As the profitability improves at the store level, we expect to have better control to keep the amount of advance payment at a minimum level.

See "Risk Factors — Risks Relating to Our Business and Industry — We may not be able to successfully expand our offline sales network by increasing the number of self-owned stores and franchise stores" and "Financial Information — Path to Profitability."

STORE NETWORK OPTIMIZATION INITIATIVES

Our store network optimization initiatives have the following three components:

(i) converting franchise store into self-owned store by asset acquisition,

(ii) converting franchise store into self-owned store by equity acquisition, and

(iii) converting non-wholly owned store into wholly owned store by equity acquisition.

Our store network optimization initiatives are part of our effort to strike the right balance between having franchise stores and self-owned stores. We work with franchisees to achieve faster expansion and regional penetration, utilizing the franchisees' local resources. We have self-owned stores over which we can exert more comprehensive control in terms of (i) store location, (ii) staff employment, (iii) selection of the merchandise, (iv) retail price of the merchandise, and (v) the decision regarding store closure.

It is crucial for us to continuously monitor and optimize our store network so that we can enhance brand awareness, secure premium store location, and improve the operation efficiency of our stores. We optimize our store network, both in terms of geographic coverage and penetration, while considering composition and synergies of different retail brands. In determining detailed store network optimization plans, we consider various factors, including (i) our retail brand strategy, (ii) local customer demographics, particularly, their purchasing capacity or preference, (iii) historical performance of relevant stores, (iv) our resources and capability of store management, as well as (v) changes in competition in that region.

When we conducted the relevant asset and equity acquisitions, (i) we anticipated that the effect of the COVID-19 pandemic on our business operation would subside, (ii) we intended to secure premium store locations and local resources, and (iii) some of our franchisees and minority shareholders considered that the duration of the COVID-19 pandemic would exceed the time they were willing to maintain the relevant stores. After the pandemic control measures were lifted on January 8, 2023, our average monthly GMV per store increased by 43.4% from RMB539.4 thousand in the ten months ended October 31, 2022 to RMB773.7 thousand in the ten months ended October 31, 2023. As a result, we are of the view that such store network optimization initiatives will have positive effects on our long-term business growth.

During the Track Record Period and as of the Latest Practicable Date, there were no disputes with or claims from franchisees or minority shareholders regarding our store network optimization initiatives in any material respects.

According to the Frost & Sullivan Report, it is in line with the industry norm for a retailer to increase the number of its self-owned stores through converting its franchise stores when it is beneficial for such a retailer to do so.

See "Risk Factors — Risks Relating to Our Business and Industry — We may not be able to successfully expand our offline sales network by increasing the number of self-owned stores and franchise stores."

The following table summarizes the various features of stores involved in the store network optimization initiatives during the Track Record Period.

	franchise store converted into self-owned store by asset acquisition					franchise store converted into self-owned store by equity acquisition	non-wholly owned store converted into wholly owned store by equity acquisition
Store type before acquisition	**157 transitional stores**		**3 joint venture stores**	**25 franchise stores without investment**		175 joint venture stores	282 non-wholly owned stores
Store type after acquisition	**127 non-wholly owned stores**	**30 wholly owned stores**	3 wholly owned stores	**14 non-wholly owned stores**	**11 wholly owned stores**	175 wholly owned stores	282 wholly owned stores
Our interest in shares and assets of the store before acquisition	• No shares • 50% of the store assets		• 50% of the shares • we contribute 50% of the initial capital expenditure and record our investment in the joint venture stores as **investment in joint ventures**.	• No shares • No store assets		• 50% of the shares • we contribute 50% of the initial capital expenditure and record our investment in the joint venture stores as **investment in joint ventures**.	• 51% of the shares • 51% of total assets and liabilities in the store[(1)]
What we acquired	1% of the store assets	50% of the store assets		51% of the store assets	100% of the store assets	50% of the shares	49% of the shares
Consideration we paid	nil	RMB44.9 million was settled by (i) setting off the outstanding amounts due from franchisees of RMB33.6 million, and (ii) cash payments of RMB11.3 million.	RMB13.8 million was settled by setting off the outstanding amounts due from franchisees.	RMB2.7 million was settled by setting off the outstanding amounts due from the relevant franchisee.	RMB15.4 million was settled by (i) setting off the outstanding amounts due from franchisees of RMB9.2 million, and (ii) cash payments of RMB6.2 million.	RMB274.9 million was settled by (i) cash payments of RMB153.3 million, (ii) setting off the outstanding amounts due from franchisees of RMB103.0 million, and (iii) setting off the outstanding loans to franchisees of RMB18.6 million.	RMB357.0 million was settled by (i) setting off the outstanding amounts due from franchisees of RMB187.1 million, (ii) cash payments of RMB146.4 million, and (iii) setting off the outstanding loans to franchisees of RMB23.5 million.
Our interest in shares and assets of the store after acquisition	• 51% of the shares in the store • 51% of store assets and liabilities[(1)]	• 100% of the shares in the store • 100% of store assets and liabilities		• 51% of the shares in the store • 51% of store assets and liabilities[(1)]	• 100% of the shares in the store • 100% of store assets and liabilities		

Note:

(1) 51% of the total assets and liabilities in the non-wholly owned stores are attributable to our shareholders of our Company while the remaining 49% of the total assets and liabilities in the stores are attributable to the relevant franchisees. 100% of the total assets and liabilities in these stores are consolidated into our consolidated statements of financial position.

See "Franchise Stores with Investment — Transitional Stores — Accounting Treatment regarding Transitional Stores."

Converting Franchise Store into Self-owned Store by Asset Acquisition

We convert a franchise store into a self-owned store by purchasing store assets primarily including decorations and fixtures therein from the relevant franchisee. The consideration for such assets is primarily based on each store's net asset value which varied among the franchise stores, primarily due to factors including conditions of decorations and fixtures, as well as the floor area of the store. Each of the transactions was negotiated on an arm's length basis.

In such transaction, we only purchased the store assets. We did not take over any store liabilities primarily including lease liabilities and staff costs payable. After each transaction, regarding the underlying store premises, (i) we replace the franchisees to become the signing party of the lease in most cases, or (ii) we enter into a new lease with the relevant landlord in the other cases.

For all of the franchise stores converted into self-owned stores by asset acquisition from 2020 to 2022, these stores' in-store sales performance on average before and after the transaction was similar by comparing the ten months' GMV of these stores on average before and after the transaction. After the adverse effects of the COVID-19 pandemic subsided since January 2023, these stores' GMV in the ten months ended October 31, 2023 on average increased by 23.1% as compared to the ten months' GMV of these stores on average before the transaction.

Transitional Store Converted into Non-wholly Owned Store by Asset Acquisition

The table below sets forth the number of transitional stores converted into non-wholly owned stores for the periods indicated. See "— Self-owned Stores and Franchise Stores — Franchise Stores with Investment — Transitional Stores — Becoming Self-owned Stores."

	Year Ended December 31,			Ten Months ended October 31,
	2020	**2021**	**2022**	**2023**
KKV	–	54	8	–
THE COLORIST	–	62	1	–
KK Guan	–	2	–	–
Total	**–**	**118**	**9**	**–**

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, there were nil, 13, two and nil franchisees (totaling 15 franchisees) involved in such acquisition. Some of the above 15 franchisees were also involved in other types of asset acquisition as discussed below.

The transitional stores were converted into non-wholly owned stores through asset acquisition conducted by our 15 non-wholly owned subsidiaries. In each non-wholly owned subsidiary, we have 51% of the shares and one franchisee has 49% of the shares.

Regarding the store assets of the transitional stores, the franchisee owns 50% of the store assets and we own 50% of the store assets. After such acquisition, the non-wholly owned subsidiary owns 100% of the store assets. The franchisee owns 49% of the total assets and liabilities in the non-wholly owned subsidiary including the store assets and liabilities after such acquisition.

These franchisees agreed to transfer their 1% of the store assets at nil consideration primarily because:

- Each transaction was conducted after commercial negotiations on the arm's length basis. After working with us during the transitional period, the franchisee recognized the value that we provide to store operation. For details on three steps for the process regarding transitional stores becoming non-wholly owned stores, please see "— Franchise Stores with Investment — Transitional Stores." We had a good bargaining power due to (i) our reliable retail brands, (ii) high-quality goods supply, and (iii) comprehensive store management and consultation services.

- We can improve sales and operation efficiency in these stores. Our greater discretion in selecting sought-after merchandise in self-owned stores can lead to higher sales in stores. Our greater discretion in lease arrangement and staff employment in self-owned stores can lead to higher operation efficiency. See "Financial Information — Path to Profitability — Expanding and Optimizing Store Network."

- The franchisees can save more time and resources on daily store operations. The relevant franchisees can save more time because it no longer needs to exercise its voting rights regarding key decisions in daily store operations including (i) a new lease or amendments in the existing lease, (ii) staff employment, (iii) merchandise selection and pricing, and (iv) any store closure plan. The relevant franchisees can save more commercial resources, human resources and market research resources regarding the above key decisions.

There is no indemnification arrangement for the franchisees involved in these transactions. The franchisees can decide whether they would like to enter into such transactions.

Transitional Store Converted into Wholly Owned Store by Asset Acquisition

The table below sets forth the number of transitional stores converted into wholly owned stores for the periods indicated.

	Year Ended December 31,			Ten Months ended October 31,
	2020	**2021**	**2022**	**2023**
KKV	–	2	10	5
THE COLORIST	–	–	13	–
Total	**–**	**2**	**23**	**5**

During the Track Record Period, there were eight franchisees in total involved in converting transitional stores into wholly owned stores and one of the above eight franchisees was involved in such conversion in both 2021 and 2022. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, there were nil, two, six and one franchisees involved in such transactions.

Among the foregoing eight franchisees, (i) three franchisees were also involved in converting transitional stores into non-wholly owned stores by asset acquisition, (ii) one franchisee was also involved in converting franchise stores without investment into wholly owned stores by asset acquisition, (iii) one franchisee was also involved in converting joint venture stores into wholly owned stores by asset acquisition, and (iv) the remaining three franchisees were only involved in converting transitional stores into wholly owned stores by asset acquisition.

Each of these franchisees had 50% of the store assets in these transitional stores before the transaction. We settled the total consideration of RMB44.9 million for the 50% of the store assets due to these franchisees by (i) setting off the outstanding amounts due from franchisees of RMB33.6 million and (ii) giving cash payments of RMB11.3 million.

Joint Venture Store Converted into Wholly Owned Store by Asset Acquisition

The table below sets forth the number of joint venture stores converted into wholly owned stores for the periods indicated.

	Year Ended December 31,			Ten Months ended October 31,
	2020	**2021**	**2022**	**2023**
THE COLORIST	–	–	–	1
X11	–	2	–	–
Total	**–**	**2**	**–**	**1**

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, there were nil, one, nil and one franchisee involved in such transactions. One franchisee was also involved in converting transitional stores converted into wholly owned stores by asset acquisition. The other franchisee was only involved in converting a joint venture store into a wholly owned store.

Each of the two franchisees had 50% of the shares and 50% of investment in each of the two joint ventures which owned and operated the stores before the transaction. We settled the total consideration of RMB13.8 million for the 50% of the store assets due to these franchisees by setting off the outstanding amounts due from the franchisees.

Franchise Store without Investment Converted into Non-wholly Owned Store by Asset Acquisition

The table below sets forth the number of franchise stores without investment converted into non-wholly owned stores for the period indicated.

	Year Ended December 31,			Ten Months ended October 31,
	2020	**2021**	**2022**	**2023**
KK Guan	–	–	14	–
Total	**–**	**–**	**14**	**–**

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, there was nil, nil, one and nil franchisee involved in such transactions. The franchisee was also involved in converting transitional stores into non-wholly owned stores by asset acquisition.

We had no shares and no store assets in these stores before the transaction. The franchisee had 100% of the store assets in these stores before the transaction. After the transaction, one non-wholly owned subsidiary took over these franchise stores without investment. The non-wholly owned subsidiary is also one of the 15 non-wholly owned subsidiaries involved in converting transitional stores into non-wholly owned stores. The franchisee has 49% of the shares and we have 51% of the shares in the non-wholly owned subsidiary. We settled the total consideration of RMB2.7 million for the 51% of the store assets due to the franchisee by setting off the outstanding amounts due from the franchisee.

Franchise Store without Investment Converted into Wholly Owned Store by Asset Acquisition

The table below sets forth the number of franchise stores without investment converted into wholly owned stores for the periods indicated.

	Year Ended December 31,			Ten Months ended October 31,
	2020	**2021**	**2022**	**2023**
KKV	–	–	–	1
KK Guan	2	1	6	1
Total	**2**	**1**	**6**	**2**

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, there were one, one, three and two franchisees (totaling seven franchisees) involved in such transactions. Among the foregoing seven franchisees, (i) one was also involved in converting transitional stores into non-wholly owned stores by asset acquisition, (ii) one was also involved in converting transitional stores into wholly owned stores by asset acquisition, and (iii) the remaining five franchisees were only involved in converting franchise stores without investment into wholly owned stores.

We had no shares and no store assets in these stores before the transaction. Each of these franchisees had 100% of the store assets in these stores before the transaction. We settled the total consideration of RMB15.4 million for the 100% of the store assets due to these franchisees by (i) setting off the outstanding amounts due from franchisees of RMB9.2 million and (ii) giving cash payments of RMB6.2 million.

Key Results of Operations of the Relevant Franchise Stores

The table below sets forth the key results of the operations of **all of the franchise stores** before their conversion into self-owned stores by asset acquisition for the periods indicated below.

	Year Ended December 31,			Ten Months ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
GMV	663,775	639,039	287,678	271,470	20,906
Revenue[(1)]	656,973	631,775	284,579	266,716	19,706
Gross profit[(2)]	270,931	258,711	117,395	109,929	8,246
Operating results[(3)]	20,931	46,957	14,994	17,100	2,738

Notes:

(1) Revenue represents revenue from sales of goods which are 100% of GMV (excluding VAT tax) generated by the store.

(2) Gross profit represents revenue deducted by cost of sales which is 50% to 60% of GMV as payment for goods we supply to the stores.

(3) Operating results represent revenue deducted by (i) cost of sales which is 50% to 60% of GMV as payment for goods we supply to the store, (ii) management and consultation fee which is no more than 10% of GMV for management and consultation services we provide to the store, and (iii) operational expenses primarily including rental expenses, staff costs and other utilities expenses incurred by the store.

The table below sets forth the movement of the number of all the franchise stores which were converted into self-owned stores by asset acquisition as of the dates indicated below.

	Year Ended/As of December 31,			Ten Months ended/As of October 31,
	2020	2021	2022	2023
At the beginning of the period	13	156	60	8
New stores	145	27	–	–
Franchise stores converted into self-owned stores by asset acquisition	(2)	(123)	(52)	(8)
At the end of the period	156	60	8	–

For more details on the types and breakdown of the franchise stores converted into self-owned stores by asset acquisition, please see "— Converting Franchise Store into Self-owned Store by Asset Acquisition."

Contribution to Our Results of Operations Prior to Asset Acquisition

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, prior to the acquisition, revenue contribution from all of the franchise stores converted into self-owned stores by asset acquisition, comprising (i) sales to franchise stores and (ii) sales-based management and consultation service income, was RMB428.7 million, RMB399.5 million, RMB175.6 million and RMB12.1 million, representing 26.0%, 11.3%, 4.9% and 0.3% of our total revenue, respectively.

Effects on Business Operations From the Conversion by Asset Acquisition

After the franchise stores were converted into non-wholly owned stores, we held 51% of the shares in the relevant stores. After the franchise stores were converted into wholly owned stores, we held 100% of the shares in the relevant stores.

In case of transitional stores and franchise stores without investment, we provide management and consultation services. In case of joint venture stores, we have 50% of the voting rights regarding key decisions in daily store operation in addition to the provision of management and consultation services. After such conversion into self-owned stores (comprising non-wholly owned stores and wholly owned stores), we take charge of all the matters for daily store operation.

After such conversion, we have (i) greater discretion in selecting sought-after merchandise which can lead to higher sales in the stores and (ii) greater discretion in lease agreement and staff employment which can lead to higher operation efficiency. See "Financial Information — Path to Profitability — Expanding and Optimizing Store Network."

Effects on Results of Operations From the Conversion by Asset Acquisition

The results of operations of franchise stores are consolidated into our results of operations after such conversion. See "— Franchise Stores with Investment — Transitional Stores — Accounting Treatment regarding Transitional Stores."

Converting Franchise Store into Self-owned Store by Equity Acquisition

During the Track Record Period, we converted 175 joint venture stores (aggregately owned by five joint ventures) into wholly owned stores by acquiring 50% of equity interest in a joint venture. From October 2022 to December 2022, we completed the equity acquisitions of four joint ventures from four franchisees and in the ten months ended October 31, 2023, we completed the equity acquisition of one joint venture from one franchisee. After such acquisitions, our equity interest in each of the relevant five joint ventures increased from 50% to 100%.

The table below sets forth the number of franchise stores converted into wholly-owned stores by equity acquisition for the periods indicated.

	Year Ended December 31,			Ten Months ended October 31,
	2020	2021	2022	2023
KKV	–	–	95	1
THE COLORIST	–	–	61	7
X11	–	–	–	–
KK Guan	–	–	5	6
Total	**–**	**–**	**161**	**14**

The consideration for each of such acquisitions ranges from RMB4.1 million to RMB220.0 million. The factors affecting the consideration include: (i) the number of retail stores set up under the particular target entity, (ii) the location, condition of decoration and the floor area of such retail stores, and (iii) the valuation report issued by an independent professional valuer. Each of the acquisitions was negotiated on an arm's length basis. The total consideration for such acquisitions was RMB274.9 million.

We settled the consideration due to the relevant franchisees by:

- giving cash payments in total of RMB153.3 million;

- setting off the outstanding amounts due from franchisees in total of RMB103.0 million; and

- setting off the outstanding loans to franchisees in total of RMB18.6 million.

Our Directors are of the view that all such acquisitions were conducted on an arm's length basis and the considerations for such acquisitions approximated the market value as suggested by the valuation reports issued by the independent professional valuer. All of such acquisitions adopted the set-off arrangement as part of the terms. See "— Self-owned Stores and Franchise Stores — Financial Support Provided to Franchisees."

As of October 31, 2023, the consideration payable for equity acquisitions of these joint ventures had been fully settled.

Key Results of Operations of the Relevant Joint Ventures

The table below sets forth the key results of operations of the five joint ventures for the periods indicated below.

	Year Ended December 31,			Ten Months ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
GMV	205,542	966,488	992,526	882,476	1,085,850
Revenue	201,073	936,080	891,517	795,465	932,014
Gross profit	81,946	383,220	373,435	330,310	394,409
Operating profit/(loss)	(25,025)	(39,622)	(201,783)	(119,468)	45,148
Net profit/(loss)	(35,151)	(76,559)	(232,457)	(145,921)	29,077

Contribution to Our Results of Operations Prior to Equity Acquisition

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, revenue contribution from the five joint ventures prior to the acquisitions was RMB111.7 million, RMB586.2 million, RMB494.2 million and RMB7.5 million, representing 6.8%, 16.6%, 13.9% and 0.2% of our total revenue, respectively. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, prior to the acquisitions of these joint ventures, we recorded share of losses from joint ventures of RMB17.6 million, RMB38.3 million, RMB80.5 million, and share of profit from joint ventures of RMB0.5 million, respectively.

Effects on Business Operations From the Conversion by Equity Acquisition

Before such conversion, we held 50% of the shares in these franchise stores. After such conversion, we hold 100% of the shares in these stores.

Before such conversion, we had 50% of the voting rights regarding key decisions in daily store operation and we provided management and consultation services. After such conversion, we take charge of all the matters for daily store operation.

Effects on Results of Operations From the Conversion by Equity Acquisition

The results of operations of franchise stores are consolidated into our results of operations after such conversion.

Converting Non-wholly Owned Store into Wholly Owned Store by Equity Acquisition

We converted 282 non-wholly owned stores (aggregately owned by 14 non-wholly subsidiaries) to wholly owned stores by acquiring 49% of equity interest in a non-wholly owned subsidiary. From October 2022 to December 2022, we completed the equity acquisitions of 10 non-wholly owned subsidiaries from nine minority shareholders, and in the ten months ended October 31, 2023, we completed the equity acquisitions of four non-wholly owned subsidiaries from five minority shareholders. After such acquisitions, our equity interest in each of these non-wholly owned subsidiaries increased from 51% to 100%.

The table below sets forth the number of non-wholly owned stores converted into wholly owned stores by equity acquisition for the periods indicated.

	Year Ended December 31,			Ten Months ended October 31,
	2020	2021	2022	2023
KKV	–	–	144	17
THE COLORIST	–	–	74	8
X11	–	–	19	4
KK Guan	–	–	14	2
Total	**–**	**–**	**251**	**31**

The total consideration for the acquisitions was RMB357.0 million, each ranging from RMB1.9 million to RMB93.7 million. All of such acquisitions adopted the set-off arrangement as part of the terms. For details on factors affecting the consideration and consideration compared with market value, please see "— Converting Franchise Store into Self-owned Store by Equity Acquisition."

We settled the consideration due to the relevant minority shareholders by:

- setting off the outstanding amounts due from franchisees in total of RMB187.1 million;
- giving cash payments in total of RMB146.4 million; and
- setting off the outstanding loans to franchisees in total of RMB23.5 million.

As of October 31, 2023, the consideration payable for equity acquisitions of these non-wholly owned subsidiaries had been fully settled.

Key Results of Operations of the Relevant Non-wholly Owned Subsidiaries

The table below sets forth the key results of operations of the 14 non-wholly owned subsidiaries for the periods indicated.

	Year Ended December 31,			Ten Months ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
GMV	32,157	1,380,887	1,635,365	1,465,124	1,998,368
Revenue	31,840	1,348,544	1,479,953	1,338,890	1,720,938
Gross profit	12,844	552,038	616,246	556,504	725,631
Operating profit/(loss)	(1,904)	(69,890)	(29,731)	(32,727)	110,006
Net profit/(loss)	(1,904)	(104,265)	(68,313)	(65,575)	84,548

Contribution to Our Results of Operations Prior to Equity Acquisition

The results of operations of the 14 non-wholly owned subsidiaries were consolidated into our results of operations prior to the acquisitions. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, for these non-wholly owned subsidiaries prior to the acquisitions, we recorded loss for the year attributable to non-controlling interests of RMB0.9 million, RMB51.1 million, RMB33.5 million and profit for the period attributable to the non-controlling interests of RMB5.4 million, respectively.

Effects on Business Operations From the Conversion by Equity Acquisition

After non-wholly owned stores were converted into wholly owned stores by equity acquisition, we held 100% of the shares in relevant stores. Our role as the owner and direct store manager remains the same before and after such conversion. See "— Self-owned Stores and Franchise Stores."

Effects on Results of Operations From the Conversion by Equity Acquisition

The results of operations of both wholly owned and non-wholly owned stores are consolidated into our results of operations. By converting a non-wholly owned store into a wholly owned store by acquisition, 100%, rather than 51%, of such a store's loss or profit will be attributable to the equity shareholders of the Company. See note 2(d) to the Accountants' Report in Appendix I to this document.

LEASE ARRANGEMENT

During the Track Record Period, we used lease arrangements to operate our KKV, THE COLORIST, X11 and KK Guan stores. For each of self-owned stores, we enter into lease agreement with lessor. For each of transitional stores or franchise stores without investment, the franchisee enters into lease agreement with the lessor. For each of joint venture stores, the joint venture enters into lease agreement with the lessor.

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, our rental expenses for our self-owned stores, comprising (i) depreciation of right of use assets, (ii) interests on lease liabilities and (iii) other rental expenses related to our self-owned stores, offices and distribution centers were approximately RMB180.7 million, RMB415.4 million, RMB548.4 million and RMB506.7 million, representing 11.0%, 11.8%, 15.4% and 10.6% of our revenue, respectively.

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, the reinstatement cost in connection with our self-owned stores was RMB0.4 million, RMB0.6 million, RMB0.9 million and RMB2.7 million, respectively.

Lease Agreements for the Self-owned Stores and Franchise Stores

The lease agreements for the self-owned stores and franchise stores typically contain the following key terms:

- ***Rent and property management fees***. Depending on the terms of the agreements, we may pay (i) variable monthly rent, which is calculated as percentages based on the GMV of the relevant store; (ii) fixed monthly rent; and/or (iii) the higher of the variable monthly rent and the fixed monthly rent, in addition to property management fees imposed by the shopping malls.

- ***Termination***. The lease agreements may be terminated by either party if the other party fails to perform any of its obligations under the lease agreement and fails to rectify that breach within a prescribed time-period.

The following table sets forth the rent determination methods and rent paid by both the self-owned stores and franchise stores for the periods indicated:

	Year Ended/As of December 31,									Ten Months Ended/ As of October 31,		
	2020			2021			2022			2023		
	Number of lease agreements	Rent paid	% of total rent paid	Number of lease agreements	Rent paid	% of total rent paid	Number of lease agreements	Rent paid	% of total rent paid	Number of lease agreements	Rent paid	% of total rent paid
		(RMB'000)	%		(RMB'000)	%		(RMB'000)	%		(RMB'000)	%
Fixed rent	268	169,363.0	51.8%	311	320,383.7	51.3%	280	291,690.8	47.8%	285	214,600.9	43.5%
Variable rent	60	7,312.3	2.2%	152	29,917.1	4.8%	154	36,849.1	6.0%	157	47,356.5	9.6%
The higher of fixed rent or variable rent	228	150,531.0	46.0%	258	274,171.5	43.9%	273	281,732.0	46.2%	282	231,229.5	46.9%
Total	**556**	**327,206.3**	**100.0%**	**721**	**624,472.2**	**100.0%**	**707**	**610,271.9**	**100.0%**	**724**	**493,186.9**	**100.0%**

Furthermore, during the Track Record Period, both the self-owned stores and franchise stores are generally able to renew the leases on terms similar to the existing leases. The following table sets forth the maturity profile of lease agreements for both the self-owned stores and franchise stores during the Track Record Period:

	As of December 31,			As of October 31,
	2020	2021	2022	2023
	Number of lease agreements	Number of lease agreements	Number of lease agreements	Number of lease agreements
Due within one year	24	51	92	86
Due after one year but within two years	80	103	95	110
Due after two years but within three years	119	115	110	158
Due after three years	333	452	410	370
Total	**556**	**721**	**707**	**724**

ONLINE SALES

We sell lifestyle products to the consumers in China through online channels in addition to our nationwide store network. We conduct online sales primarily through (i) working with third-party online-to-offline e-commerce platforms ("**O2O platforms**"), and (ii) online stores on other third-party e-commerce platforms.

The table below sets forth our revenue generated from online sales for the periods indicated.

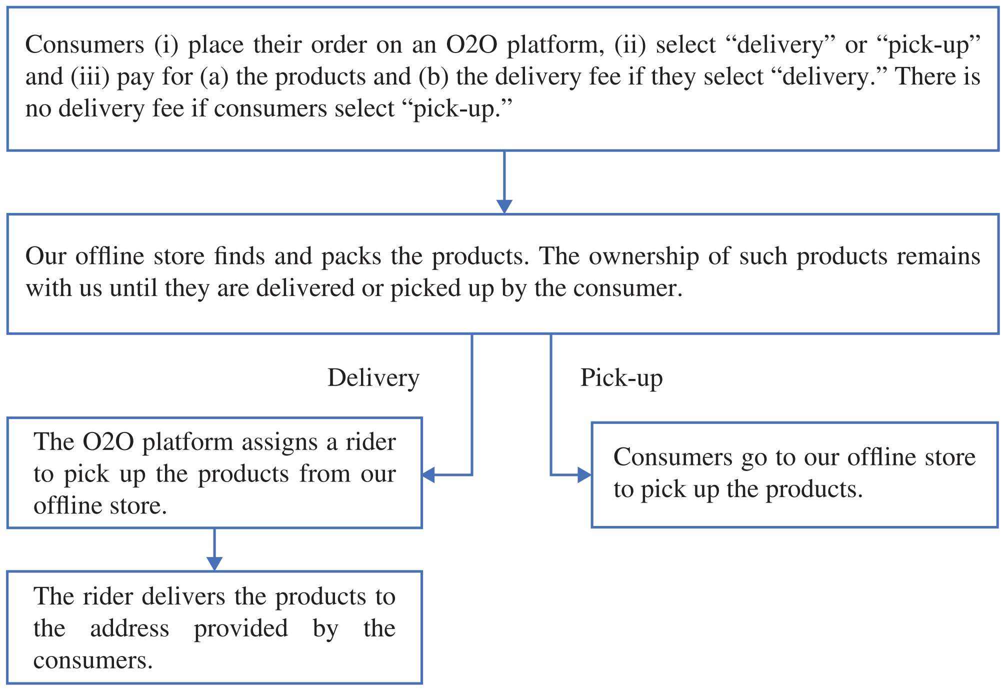
	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Third-party O2O platforms	–	9,542	112,099	81,586	202,945
Online stores on third-party e-commerce platforms	25,443	8,701	37,667	25,066	71,046
Total	**25,443**	**18,243**	**149,766**	**106,652**	**273,991**

O2O Platforms

Consumers can place their orders for our products on an O2O platform and the products (i) can be picked up by the consumers at our offline store, or (ii) will be delivered to such consumers from our offline store by the delivery team designated by the O2O platform. Through this business model, we can better utilize both our nationwide store network and the on-demand delivery networks operated by O2O platforms. Since 2021, we have started to work with O2O platforms primarily including Meituan, Ele.me and JD-Daojia, three leading O2O platforms in China.

Process of Online Sales through O2O Platforms

The flowchart below illustrates the process of online sales through O2O platforms.



Agreement with O2O Platforms

We typically enter into standardized agreements with O2O platforms. The salient terms of these agreements include:

- ***Duration***. Generally one year or less than one year, subject to annual renewal.

- ***Service fee***. The O2O platform primarily offers (i) internet information services for product display and order management, (ii) logistics management services primarily by assigning third party delivery riders to deliver the products, (iii) promotion-related technical services, and (iv) network technical services such as online payment systems. The service fee is typically at a prescribed rate of the sales proceeds regarding the online orders, subject to the type of the service provided by the O2O platform. The sales proceeds is the payment for the products made by the consumers.

- ***Settlement***. The O2O platform adopts the online payment systems and collects payments from the consumers who place online orders. We and the O2O platform will reconcile and confirm the transaction records. After deducting the service fees payable to the O2O platform, the O2O platform transfers the rest of the sales proceeds to us.

- ***Termination***. The agreements will be terminated upon the expiration or by other means as set forth in the agreements.

Effects on Our Results of Operations

We are entitled to a prescribed percentage of sales proceeds, which are recorded as our online sales under revenue. The offline store is entitled to the remaining portion of sales proceeds which are recorded as the store's online sales.

We are entitled to a prescribed percentage of sales proceeds primarily because the ownership of the products remains with us until they are delivered or picked up by the consumer. The offline store is entitled to a portion of sales proceeds because under such online-to-offline business model (i) the products are stored on shelf in the store, (ii) the store finds and packs the products, and (iii) the products will be delivered from the store.

In case that the offline store is a self-owned store, the entire sales proceeds is recognized as online sales under our consolidated results of operations. In case that the offline store is a franchise store, only the prescribed percentage of sales proceeds which we are entitled to is recognized as online sales under our consolidated results of operations.

The service fee paid to the O2O platform is recorded as selling and distribution expenses in our results of operations.

As of October 31, 2023, substantially all of the stores under our retail brands in China can generate online sales through such business model. We expect that substantially all of the new stores in China will conduct online sales through this model.

Third-party E-commerce Platforms

We operate the online stores on: (i) mainstream e-commerce platforms such as Tmall and JD.com, and social e-commerce platforms such as Xiaohongshu and Douyin, and (ii) our KKV, THE COLORIST, and X11 WeChat mini programs which are embedded in the platform operated by Tencent.

The flowchart below illustrates the process of online sales through our online stores.

Consumers (i) place their order on our online stores, and (ii) pay for (a) the products, and (b) the delivery fee if the payment for products falls below the minimum purchase amount for free shipping.

If the payment exceeds such minimum amount, we will pay for the delivery fee.

↓

Our warehouse finds and packs the products. The ownership of such products remains with us until they are delivered to the consumers.

↓

The e-commerce platform assigns its delivery personnel or we assign the third party courier to deliver the products.

↓

The delivery personnel or third party courier delivers to the address provided by the consumers.

Agreements with Mainstream and Social E-commerce Platforms

We typically enter into standardized agreements with these third-party mainstream and social e-commerce platforms regarding our online stores on these platforms. The salient terms of these agreements include:

- ***Duration***. Generally one year or less than one year, subject to annual renewal.

- ***Service fee***. We shall pay the e-commerce platform (i) fixed annual service fee, and (ii) variable service fee which is calculated by taking a prescribed percentage of the sales proceeds regarding the online orders. The service fee is determined by the e-commerce platform based on the industry category of the store, the store types, and the type of the services provided by the e-commerce platform.

- ***Settlement***. The e-commerce platform adopts the online payment systems and collects payments from the consumers who place online orders. We and the e-commerce platform will reconcile and confirm the transaction records. After deducting the service fees payable to the e-commerce platform, the e-commerce platform transfers the rest of the sales proceeds to us.

- ***Termination***. The agreements will be terminated upon the expiration or by other means as set forth in the agreements.

We plan to broaden our online sales channels by working with more third-party e-commerce platforms.

Agreements regarding WeChat Mini Programs

We typically enter into standardized agreements with Tencent regarding our WeChat mini programs. The salient terms of these agreements include:

- ***Duration***. Generally one year or less than one year, subject to renewal by purchase of usage packages as below.

- ***Service fee***. We shall pay Tencent (i) fixed service fee by purchasing pre-paid usage packages, and (ii) variable service fee.

  - o Each pre-paid usage package specifies (i) the maximum number of consumers' authorized visits to our WeChat mini programs, (ii) days of use, such as a quarter, six months and one year, and (iii) fixed service fee based on the above maximum number of consumers' visits and days of use.

  - o The variable service fee is calculated by taking a prescribed percentage of the sales proceeds regarding the online orders. The variable service fee is determined by Tencent based on the industry category of the store and store types.

- ***Settlement***. Tencent adopts the online payment system and collects payments from the consumers who place online orders. After deducting the variable service fee payable to Tencent, Tencent transfers the rest of the sales proceeds to us.

- ***Termination***. The agreements will be terminated if we stop using the WeChat mini programs or stop purchasing the usage packages, or by other means as set forth in the agreements.

Effects on Our Results of Operations

We record the sales proceeds as our sales of goods under revenue. The sales proceeds are the payment for the products made by the consumers on our online stores.

We record the service fees paid to the e-commerce platforms or Tencent as selling and distribution expenses in our consolidated statements of profit or loss.

We record the delivery fee paid to the third party couriers that we assign for delivery as selling and distribution expenses in our consolidated statements of profit or loss.

Disposal of KK Guan E-mall

Prior to 2020, we started to explore online sales business, primarily by launching KK Guan E-mall (KK館電子商城) as a pilot program. KK Guan E-mall comprised (i) KK Guan WeChat mini program and (ii) mobile APPs on iOS and Android application system. Orders placed on either the WeChat mini program or the mobile APPs were handled by our warehouses and delivered by third party couriers to the consumers.

In order to focus on expanding our nationwide store network in 2020, we and Guangdong Tengke, an Independent Third Party, entered into a transfer agreement on May 18, 2020. Pursuant to this agreement, we sold KK Guan E-mall to Guangdong Tengke. The relevant agreement stipulates that:

- We keep the unused top-up amount of RMB515,823.5 paid by the registered users of KK Guan E-mall before the transaction; and

- Guangdong Tengke (i) takes over the obligation in relation to the unused top-up amount paid by the registered users, and (ii) continues to provide services to the registered users.

Guangdong Tengke did not pay any cash consideration other than the above unused top-up amount. During the Track Record Period and as of the Latest Practicable Date, we did not have any material disputes with any registered user or Guangdong Tengke regarding the unused top-up amount. We did not grant Guangdong Tengke the license to use KK Guan trademark nor transfer any of our merchandise as part of the transaction.

Before such transaction, we were not involved in any material litigations or any review, inquiry, investigation or penalty by the relevant regulatory authorities regarding owning and operating KK Guan E-mall.

In May 2020, after the transaction, Guangdong Tengke changed the name of "KK Guan E-mall" to "K+." We began to sell the merchandise directly to K+ since May 2020 and stopped selling any merchandise to K+ in 2021 when K+ was closed.

Before such transaction in May 2020, we recorded intangible assets of nil regarding KK Guan E-mall. In 2020, our revenue from KK Guan E-mall before the transaction was RMB16.6 million and our revenue from sales to K+ after the transaction was RMB7.0 million, totalling RMB23.6 million, representing 1.4% of our total revenue. In 2021, our revenue from sales to K+ was RMB1.9 million, representing 0.1% of our total revenue.

INFORMATION TECHNOLOGY

We pride and distinguish ourselves in implementing advanced information technology to support our development.

We have established an integrated information technology platform combining both an advanced technology infrastructure that reaches each store, gathering comprehensive operation data on a real-time basis, and advanced big data analytical capability that effectively supports our decision-making process. As of October 31, 2023, our information technology team consists of 118 employees, approximately 11.4% of our total employees at headquarter level.

We believe that our effective and customized information technology systems are crucial for improving operational efficiency, reducing operating expenses and achieving higher profitability.

Our Technology Infrastructure

We are committed to continuously investing in an advanced technological infrastructure. Our integrated IT platform allows us to manage each of our key operation sectors at the front, middle and back end, covering site selection and store building, merchandise selection procurement, order fulfillment, logistics chain management, inventory management, financial management and other administrative functions.

Over the years, we have not only procured professional software systems from leading international vendors, but also invested heavily in building self-developed systems tailored for our operations.

As of the Latest Practicable Date, our key proprietary information technology systems include:

- TERP System. We rolled out our proprietary ERP system, TERP, which serves as a group-wide technology platform featuring flexible applicability, user-friendly operating interface and efficient communication across multiple departments. Through this centralized system, we are able to monitor and manage a variety of functions at each store as well as daily transactions with our suppliers, including procurement, sales, warehousing and accounting. The system also allows us to detect fluctuations in sales, costs, and other key operational indicators on a regular basis.

- KPOS System. We installed this proprietary system to serve each key scenario in the management of the stores across all brands, allowing us to efficiently administer, through a standardized and unified platform, various critical functions including cash flows, order processing and inventory management. In particular, KPOS allows our store staff to conveniently monitor and inspect the corresponding inventory status by using their mobile devices, which greatly improves the accuracy and efficiency of inventory management.

  Each of our self-owned and franchise stores are connected to our information technology system through a POS terminal, which facilitates real-time collection and management of financial and operational data. Such information is essential for assessing the marketability of individual products and our customers' purchasing preferences, which in turn allows our management to make effective adjustments in product mix and pricing.

- KVCM System. We began to implement this self-developed system designed to visualize, synchronize and optimize shelf display management at the stores across all brands, which we consider crucial for maintaining our competitiveness in attracting target customers, as well as the effective enforcement of our strict merchandise selection policy. Through a visualized interface, we synchronize shelf display information at each store so that our headquarters may review and adjust, on a real-time basis, the exact category, amount and position of a specific product type on the shelf. This way, we are able to substantially improve administrative efficiency across our extensive store network to achieve and maintain high-standard brand image.

- Keewood Low-code System. We developed this platform to facilitate efficient information sharing and analysis among different operating departments and, in particular, to enable convenient, multidimensional processing of a substantial amount of data generated across our Group. Each key operating department is represented as a module on this platform, where we connect them through a visualized interface to simulate a real-life business operation flow, where operating data in each relevant work stream could be quickly retrieved for our observation and study. In particular, this platform features low coding work load and quick turnaround time, significantly enhancing our data-driven business management capability. This platform has offered us advanced technology support to further optimize product procurement, cash management, store development, internal task tracking, as well as information sharing across departments.

- Supplier Settlement System. An integrated system we developed to accommodate the suppliers' needs to review and reconcile their bills and orders, settle payments, and carry out other supply chain financing functions.

- Work Order System. A self-developed internal communication platform to which our employees may submit tickets containing issues to be resolved. The system will then automatically match such tickets with the responsible department, while allowing timely documentation, tracking and analysis of the topics most commonly raised.

- Microservice Governance System. A self-developed technology platform, through which we can manage the whole life cycle of microservices of each self-developed system, including the operation, monitoring and inter-service call of basic services, so that our technical services can be managed in an efficient, automatic, choreographable and observable manner.

- WMS. A warehouse management system that provides services in each key scenario of warehouse operations, so that all functions in our warehouse can be systematically managed and the efficiency of information sharing and transmission in the warehouse can be improved, so as to realize and maintain efficient product management.

- Product Selection System. A data analysis platform to provide the important scenario support in the merchandise selection stage for each brand of our Group. By analyzing our own platform data and Internet open data, we can have a more comprehensive understanding of the trends of each product brand, users' preferences and market hot spots. Meanwhile, we can systematize and digitize the merchandise selection process, so that our selection are not prone to selection errors due to human subjective preferences and judgments.

Apart from our self-developed IT systems, we have also formed in-depth relationships with third-party IT services providers who offer sophisticated digital solutions ranging from data analytical tools to the warehousing and logistics for our inventories, including the WMS, Business Intelligence and Product Selection System.

Application and Future Development

Building on this solid infrastructure, we further developed and endeavored to upgrade a range of refined sub-systems which support and optimize our daily operations. Functioning as a whole, our information technology systems are capable of processing large volumes of raw and scattered market data and converting them into readable and structured information pieces quickly and accurately, allowing us to collect information regarding consumer purchases, monitor consumer preferences, make timely assessments of market trends and estimate our future growth.

Leveraging our effective and comprehensive information technologies, we managed to observe, track and capture business opportunities and customer preference in a more efficient manner compared with our industry peers, resulting in our quick expansion and growing market influence. We collect information relating to customers preferences and market trends through our KPOS system installed in the stores, online surveys, as well as behavioral data extracted from third-party social media platforms.

PROCUREMENT AND MANUFACTURING PROCEDURES

During the Track Record Period, we generated revenue mainly from the (i) sale of third party brand merchandise under procurement agreements with Third Party Brand Suppliers, and (ii) sale of self-owned brand merchandise which were manufactured by the OEM and ODM contractors we engaged.

The following table sets forth a breakdown of our revenue generated from sale of goods, by source of merchandise, and the contribution of each source of merchandise in absolute amounts and as percentages of our revenue generated from sale of goods for the periods indicated:

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Self-owned brand merchandise[(1)]	202,916	13.0%	439,413	13.0%	363,231	10.5%	316,807	10.6%	650,091	13.8%
Third party brand merchandise[(2)]	1,363,193	87.0%	2,950,336	87.0%	3,089,833	89.5%	2,670,063	89.4%	4,048,924	86.2%
Total	**1,566,109**	**100.0%**	**3,389,749**	**100.0%**	**3,453,064**	**100.0%**	**2,986,870**	**100.0%**	**4,699,015**	**100.0%**

Notes:

(1) Self-owned brand merchandise refers to merchandise we procure from OEM and ODM contractors.

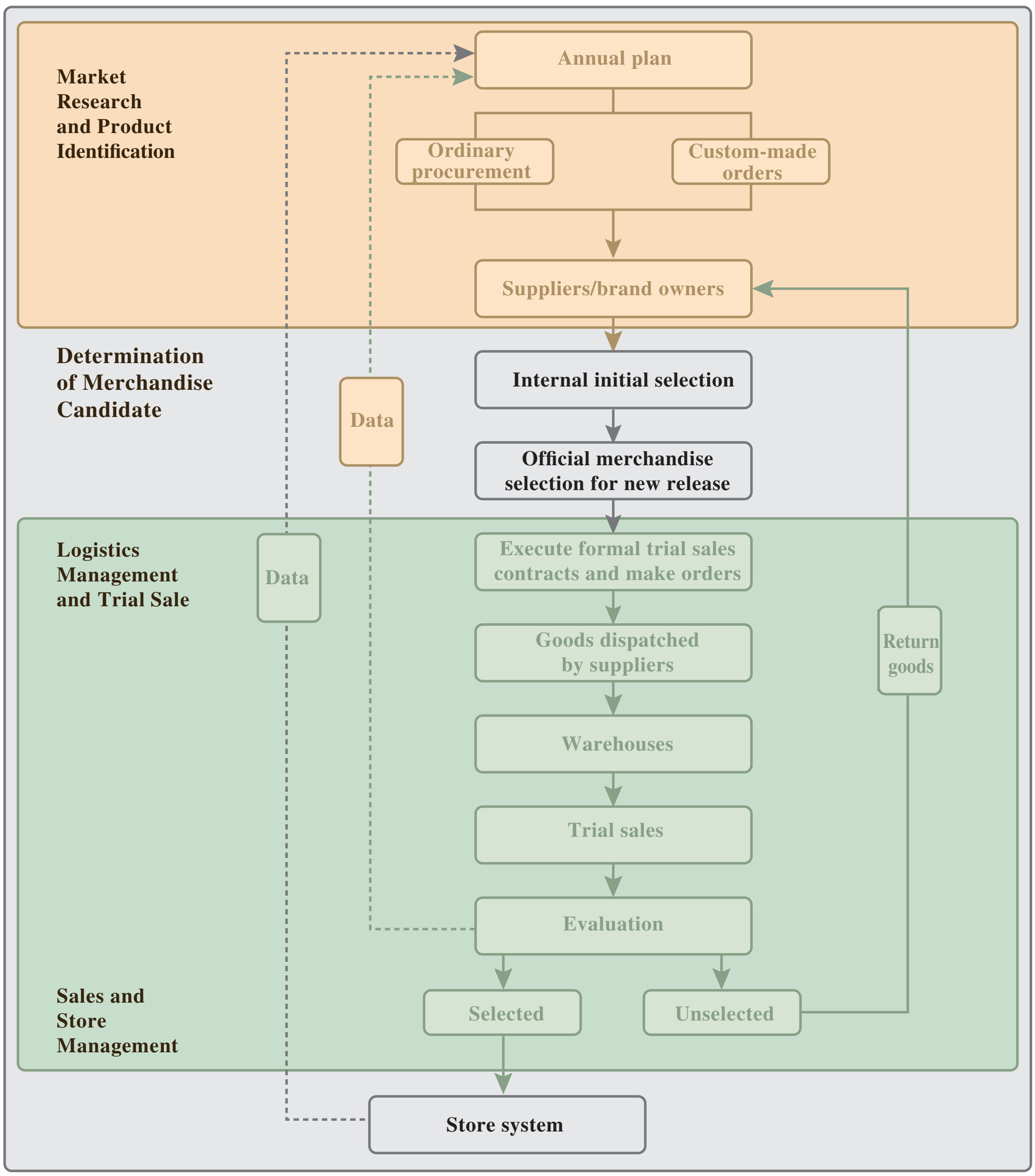
(2) Third party brand merchandise refers to merchandise we procure from Third Party Brand Suppliers.

Our self-owned brand merchandise primarily includes women's accessories, beauty tools, cosmetics, skincare products, daily supplies and household products, as well as food. In 2022, our sales of cosmetics, women's accessories and beauty tools decreased compared with 2021 primarily because consumers' demand for such merchandise decreased primarily due to (i) closed-loop management, (ii) the pandemic restrictive measures, and (iii) long-lasting mask wearing requirement implemented nationwide in 2022 in China. After the adverse effects of the COVID-19 pandemic had subsided since January 2023, our revenue from sales of self-owned brand merchandise in the ten months ended October 31, 2023 increased by 105.2% compared with the ten months ended October 31, 2022.

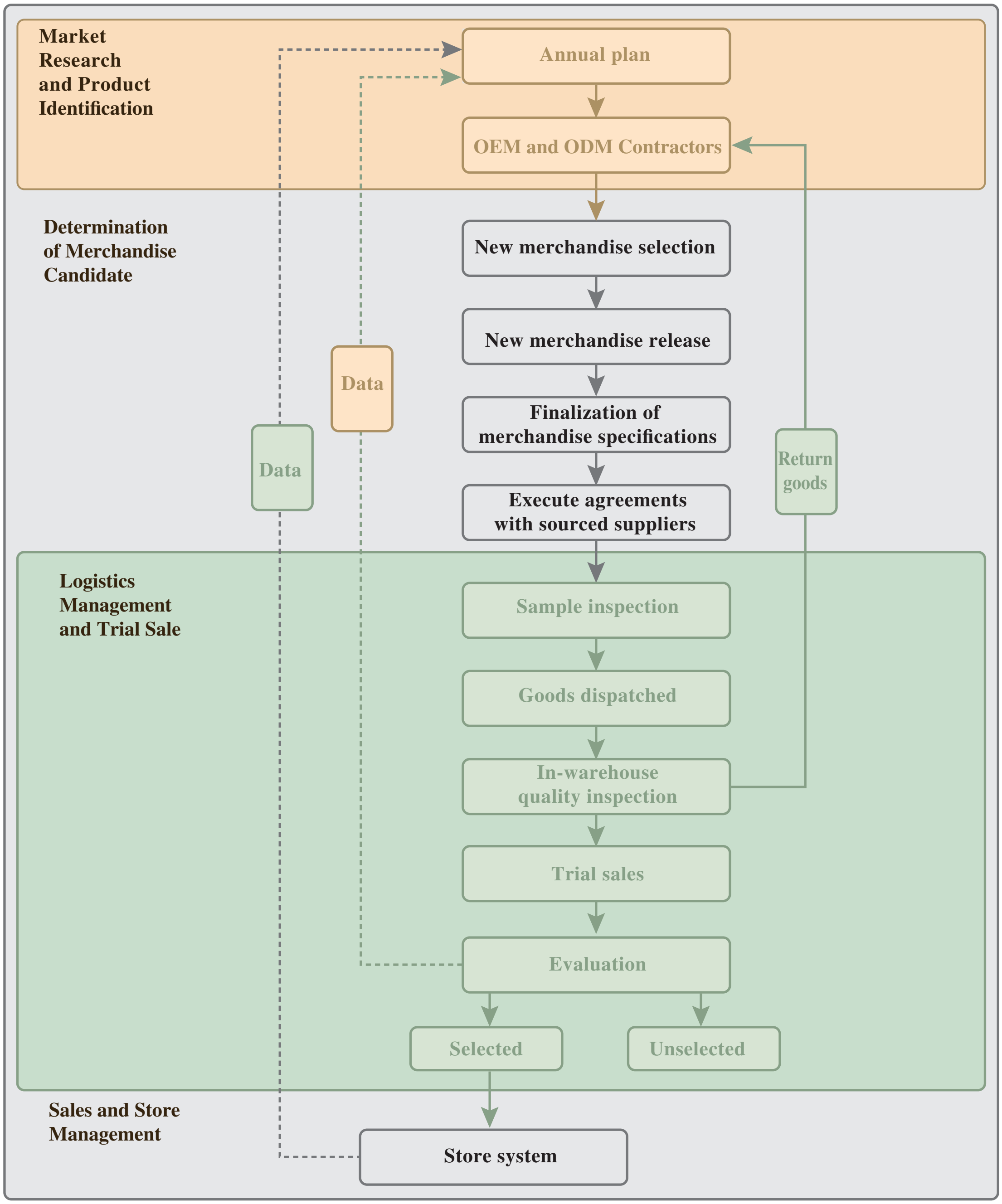
The third party brand merchandise primarily includes cosmetics, daily supplies, food, toys and skincare products.

The charts below illustrates the typical procedures adopted in the (i) procurement of merchandise from Third Party Brand Suppliers and (ii) manufacturing of self-owned brand merchandise through OEM and ODM contractors.

Procurement from Third Party Brand Suppliers



Self-owned Brand Merchandise from OEM and ODM Contractors



Market Research and Product Identification

Sale of Third Party Brand Merchandise

We source third party brand merchandise and distribute them in the stores. We regularly conduct industry research, participate in trade fairs and conventions, and meet with new brand owners, authorized dealers and distributors to discover new merchandise with high potential. In addition, with the aid of our proprietary information technology systems, we use real-time performance indicators to help us evaluate changing market trends and consumer behavior. For details on our proprietary IT systems, see "— Information Technology."

When determining potential merchandise, we take into account a broad range of factors, including (i) popularity of relevant product based on historical sales record, (ii) market trend anticipation; (iii) reputation of the supplier; (iv) aesthetical appeal; (v) attraction to our target customers; and (vi) pricing.

For details of our third party brand merchandise, see "— Our Merchandise Offerings — Our Merchandise Sourcing Procedures and Selection Policy — Identifying Third Party Brand Merchandise."

Sale of Our Self-owned Brand Merchandise

We develop our self-owned brand merchandise through the engagement of OEM and ODM contractors. We further sell the finished merchandise to the customers through our store network. The production of our self-owned brand merchandise is fully outsourced to OEM and ODM contractors, all of whom are Independent Third Parties.

During the Track Record Period, we also collaborated with 39 popular brands to launch a series of tailored merchandise, which achieved a strong sales record.

When determining the types of merchandise to produce under our self-owned brand, we take into account considerations such as (i) the extent of customers' brand loyalty to the merchandise supplied by third party brand, (ii) substitutability of the particular merchandise, (iii) the ability to set the price of the merchandise at a premium, and (iv) whether the current market has addressed the prevailing customer demand.

For details of our self-owned brand merchandise, see "— Our Merchandise Offerings — Our Merchandise Sourcing Procedures and Selection Policy — Determination of Our Self-owned Brand Merchandise."

Determination of Merchandise Candidate

We follow a stringent set of requirements when determining merchandise candidates. Once a pool of potential merchandise is identified, the relevant merchandise will undergo a three-step elimination process so that only the most demanded by the market are retained. For details, see "— Our Merchandise Offerings — Our Merchandise Sourcing Procedures and Selection Policy — Our Merchandise Selection Criteria and Process."

Logistics Management

We maintain a logistics and delivery network with nationwide coverage. Empowered by our robust and advanced digital warehouse management system, we have adopted a logistics model that supports our nationwide network. We use both nationwide and regional third-party logistics service providers to ensure reliable and timely deliveries. For details, see "— Logistics and Inventory Management — Logistics and Warehousing."

Sales and Store Management

We take into account the target demographic of a particular store and, accordingly, assign the most suitable merchandise offerings to cater to the target customers and maximize our potential sales. The performance of each store is also monitored in real time by our proprietary KPOS system. This has enabled us to keep track of various performance indicators at the store level, including GMV, total transactions, average spending per customer, and others. For details, see "— Information Technology."

NETWORK MANAGEMENT AND OPERATIONS

We have a dedicated team that plans and manages our retail store network. We follow a disciplined approach in selecting cities for store network expansion. In determining the regions we expect to tap into, we evaluate a number of factors, including the target city's local economy and demographic structure, level of urbanization, income and purchasing power, the coverage of our facilities and logistics capabilities, as well as the availability and potential growth of qualified franchisees.

In each city, we aim to locate stores at desirable sites near residential areas or business districts with affluent consumer traffic, particularly within shopping malls with strong pedestrian flow, which helps to increase the convenience for the customers to make purchases and enhance the visibility of the stores and merchandise. See "— Sales and Marketing."

Network Management Structure

Our store development and operation department under each of our four retail brands at the headquarters is responsible for the management of store network. We dispatch managers on a routine basis to supervise the operation of stores, where each manager takes charge of several stores in a specific geographic region. They report directly to the corresponding departments at our headquarters regarding store performance, staffing and other key administrative matters, which will form the basis of our regular store review.

Store Management

Staffing

We believe that the performance of store staff is critical for the efficient operation of the stores and the provision of outstanding customer service. We carefully determine the number of in-store staff per store, which may differ depending on the store brand, store size and sales level.

We adopt a "no-interruption" policy to ensure customer-centric shopping experiences. We do not impose sales targets on our in-store staff, who are only tasked with providing satisfying customer services and assistance to our customers when they seek help. We believe that our approach effectively prevents in-store staff from engaging in pushy marketing techniques and enables us to provide differentiated shopping experiences compared to other retail stores in the market. Our in-store staff undergo a two-week training which focuses on customer services and customer relationship management prior to their placement in the stores. Meanwhile, our online customer service assistants provide back-office support to answer technical questions relating to our products. Moreover, when we receive complaints from our customers, our in-store staff are trained to promptly and properly record the complaints received, which are carefully investigated by our team in order to avoid similar incidents in the future.

For store management, we also capitalize on our proprietary KVCM system which is designed to provide digitalized merchandising solutions in relation to merchandise display, store layout, and product space allocation. The stores are also installed with our proprietary KPOS system to monitor the sales performance and inventory level on a timely basis across our store network. For details, see "— Information Technology."

Designs and Merchandise Display

We envision relaxed and fun shopping experiences for our customers. The stores are generally decorated with bright and vibrant hues, and our merchandise is displayed in eye-catching arrangements. To satisfy the adventurous appetite of our young target customers, our merchandise is frequently refreshed and the storefronts are constantly showcasing new and novel merchandise to attract pedestrians bypassing the stores. The merchandise offerings is frequently reevaluated and rotated to catch up with the changing trends. For example, benefiting from our effective merchandise screening procedures, the KKV stores' merchandise offerings elimination rate in the ten months ended October 31, 2023 was approximately 20.1%, measured by SKUs eliminated divided by total SKUs in the ten months ended October 31, 2023. Our high elimination rate and wide varieties of merchandise offerings are not only captivating to potential new customers, they also encourage recurring visits of our existing customers.

We place strong emphasis on the expression of our brand concepts. Our store development and operation department under each of our four retail brands at the headquarters is responsible for the setting of guidelines in relation to storefront design, theme, store layout and merchandise display of all stores. We aim to present a unified design concept for the stores under each of our four retail brands.

Management of Self-owned Stores

To ensure a disciplined and effective coordination of our store management system, our self-owned stores follow a suite of internal guidelines and policy formulated by our headquarters. These detailed guidelines and policies cover various operational aspects of our self-owned stores, including standardized operating procedures, warehousing and logistics operations and staff training. In addition, our regional store managers regularly conduct on-site inspections at our retail stores to ensure that they are in compliance with our operating guidelines.

Management of Franchise Stores

The franchise stores, comprising (i) franchise stores with investment including (a) transitional stores and (b) joint venture stores, and (ii) franchise stores without investment, adopt substantially the same internal guidelines and policies as our self-owned stores, in order to provide quality and consistent shopping experiences to our customers. We provide management and consultation services, including advice on pre-opening preparation, staff hiring and training as well as goods supplement. We generally collect management, and consultation service fee based on a certain percentage, generally no more than 10% of monthly GMV generated in each franchise store. According to the Frost & Sullivan Report, no more than 10% of store sales as the management fee, and more than 50% of the store sales as the payment for goods the company charges the franchisee, on a daily or monthly basis, are in line with general practice in retail industry in China where franchisees benefit from the company's strong experience in store management and product offering, while the company can also benefit from relevant franchisees' resources in local market.

Apart from the store management arrangements, pursuant to which we are able to establish uniform guidelines across our store network, we conduct onsite inspection at least once a month at each of the franchise stores to monitor their compliance with our guidelines. All the franchise stores, like our self-owned stores, are installed with our proprietary KPOS system, which enables us to perform sales and inventory tracking on a real-time basis. In addition, in-store staff at the franchise stores are required to check and take pictures of a specific portion of goods shelf daily, and by the end of each month, in-store staff can check substantially all goods shelfs once at the respective franchise stores. This also allows us to monitor in-store sales and their correspondence to the actual amount of payment for goods and sales-based management and consultation service fee we charge the relevant stores.

Two Stores and One Year Requirement

Pursuant to relevant franchising regulations, a franchisor shall have at least two directly operated stores and have operated each of the two directly operated stores for over one year before engaging in franchising activities ("**Two Stores and One Year Requirement**") and shall make filings with relevant government authorities within 15 days after entering into the first franchising agreement. Where a franchisor engages in franchise operations and fails to satisfy the condition of Two Stores and One Year Requirement, competent regulatory authorities shall order the franchisor to make correction, confiscate the illegal income, impose a fine ranging from RMB0.1 million to RMB0.5 million and make a public announcement. Where a franchisor fails to file with competent regulatory authorities, competent regulatory authorities shall order the franchisor to file within a statutory timeframe and impose a fine ranging from RMB10,000 to RMB50,000, and where the franchisor fails to file records within such statutory timeframe, a fine ranging from RMB50,000 to RMB0.1 million shall be imposed and a public announcement shall be made.

In May 2022, the Market Supervision and Administration Bureau of Shenzhen (深圳市市場監督管理局) imposed on us a fine of RMB0.3 million for our historical failure to fully meet the Two Stores and One Year Requirement and failure to file with competent regulatory authorities within the statutory timeframe for KKV, THE COLORIST and KK Guan brands. Based on relevant government authority's investigation, we had no illegal revenue generated from the franchising activities of KKV, THE COLORIST and KK Guan brands. The Market Supervision and Administration Bureau of Shenzhen stated in its decision of administrative penalty that since we completed filing or has applied for commercial franchise filings for KKV, THE COLORIST and KK Guan brands, there is no need for any correction order with respect to prompt filing to be imposed on us. According to the Administrative Penalty Law of the PRC, no administrative fine would be imposed more than once for the same illegal act. Our PRC Legal Advisers are of the view that since administrative fine was imposed on us for our historical failure to comply with Two Stores and One Year Requirement and filing requirement for KKV, THE COLORIST and KK Guan brands, extra administrative penalty for the same non-compliance would not be imposed on us considering that we paid the fine of RMB0.3 million timely.

As of the Latest Practicable Date, we met the requirements of Two Stores and One Year with respect to KK Guan, KKV, THE COLORIST and X11. We completed commercial franchise filing for KK Guan, KKV and THE COLORIST in January 2020, September 2021 and September 2022, respectively.

With respect to X11 brand, we terminated the franchising activities on a voluntary basis as soon as we realized we did not satisfy the condition of Two Stores and One Year Requirement. Our Directors are of the view that no illegal income was generated from franchising activities of X11 brand for each period during the Track Record Period because (i) the historical franchising activities of X11 were similar to those of KKV, THE COLORIST and KK Guan, and (ii) the relevant governmental authority found no illegal revenue generated from franchising activities of KKV, THE COLORIST and KK Guan brands. In view of the foregoing factors, our PRC Legal Advisers are of the view that relevant competent authorities may impose a maximum fine of RMB0.5 million with respect to the failure to meet the Two Stores and One Year Requirement, and impose a maximum penalty of RMB0.1 million with respect to the failure to complete the commercial franchising filing for X11 brand within the statutory timeframe.

Considering the foregoing factors, our PRC Legal Advisers are of the view that neither the fine imposed by the competent authorities in May 2022 with respect to historical franchising activities of KKV, THE COLORIST and KK Guan brands nor the potential maximum penalty with respect to X11 brand that may be imposed by the competent authorities for its historical failure to comply with the Two Stores and One Year Requirement and filing requirement as elaborated above would have any material impact on the [**REDACTED**].

Expansion Plan for Sales Channels

We seek to open additional self-owned stores and franchise stores to increase our customer reach and increase our sales and visibility. With respect to the geographic locations of these stores, we plan to open new stores in cities and provinces with strong economy strengths and growth potential because (i) our market presence in more developed cities and regions in these provinces have well positioned us to expand into neighboring lower tier cities where there is substantial demand for lifestyle products and (ii) the offline-driven non-grocery retail market in China is very fragmented, and we believe that there is substantial potential for us to increase our market penetration in these more developed markets, such as opening up stores in newly opened shopping malls in prime locations.

The flow chart below sets forth the main preparatory work required to open a new store.

Store site selection (approximately 20 to 30 days)

We primarily consider the following factors: (i) the local economy and growth potential, (ii) customers' preferences, (iii) the pedestrian flow, and (iv) the peers' competition.

↓

Lease negotiation (approximately 50 to 90 days)

We primarily negotiate the following terms with the landlord: (i) store size, (ii) the amount of rent, (iii) rent determination method (such as fixed rent and variable rent), and (iv) the commencement and expiry dates of the lease.

↓

Store design and decoration (approximately 45 to 60 days)

We primarily focus on the (i) safety, quality and cost effectiveness of design structure and decoration material, (ii) the storefront design, theme and store layout for each of our retail brands, and (iii) the overall decoration style of the shopping mall.

In 2023, 194 new stores were opened and 101 stores were closed with the net increase of 93 new stores in the same period. The store closures were primarily because (i) the franchise agreements or the leases of some stores had expired by the end of 2023, and (ii) the customer traffic of some stores was unsatisfactory due to the weak customer traffic of the shopping malls where the stores are located, the road construction nearby or competition in the nearby shopping malls. We substantially met our overall store expansion plan in 2023. See "Summary — Recent Developments."

We expect that around 275 new stores will be opened in each of 2024 and 2025, respectively. We expect that a large majority of the stores to be opened in 2024 and 2025 will be in tier-two and lower tier cities in China.

We expect that the continued expansion of our store network will be supported by the market demand. According to the Frost & Sullivan Report, the offline-driven non-grocery retail market is expected to reach RMB655.5 billion in 2027, representing an estimated CAGR of 19.5% from 2022 to 2027.

There is significant whitespace for growth in tier-two and lower tier cities in China, according to the Frost & Sullivan Report. As of December 31, 2023, in our retail store network in China, there were 72 stores in tier-one cities and 676 stores in tier-two and lower tier cities. The foregoing 676 stores were in approximately 583 shopping malls in tier-two and lower tier cities in China, accounting for less than 12.0% of the total number of shopping malls in these cities in China as of December 31, 2023. We therefore believe there is sufficient whitespace to support the increase in the number of our stores contemplated by our store expansion plan.

The actual number, location and timing of new retail store openings under four retail brands in any period will be affected by a number of factors, including macro-economic factors that could have an adverse effect on general retail activities, health epidemics, the opening of stores of competitors in the same area or location of our self-owned stores, the opening of a new store of ours in the same city as our existing stores, costs associated with store construction and operation, costs associated with leases in quality retail locations, as well as potential profitability of a potential new store.

We may make necessary adjustments to the number, location and timing of planned store openings depending on the existing market conditions and the preparatory work for the relevant stores, subject to the above factors.

Cash Management

Payment at the stores may be settled by common methods including WeChat Pay, Alipay, credit cards, or cash. The following table sets forth the breakdown of GMV generated in the retail stores by payment methods during the Track Record Period.

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Online Payment										
WeChat Pay	1,379,391	61.2%	3,009,698	66.7%	2,834,994	64.8%	2,539,403	66.2%	3,364,666	60.8%
Alipay	631,181	28.0%	1,072,010	23.8%	813,582	18.6%	728,296	19.0%	787,569	14.2%
Others	8,170	0.4%	22,746	0.5%	40,284	0.9%	31,680	0.8%	66,539	1.2%
Subtotal	**2,018,742**	**89.6%**	**4,104,454**	**91.0%**	**3,688,860**	**84.3%**	**3,299,380**	**86.0%**	**4,218,774**	**76.2%**
Offline Payment										
Cash	162,418	7.2%	315,074	7.0%	329,112	7.5%	288,653	7.5%	480,857	8.7%
Bank card	73,087	3.2%	90,598	2.0%	356,405	8.1%	246,798	6.4%	835,842	15.1%
Subtotal	**235,505**	**10.4%**	**405,672**	**9.0%**	**685,517**	**15.7%**	**535,451**	**14.0%**	**1,316,699**	**23.8%**
Total GMV	**2,254,247**	**100.0%**	**4,510,126**	**100.0%**	**4,374,377**	**100.0%**	**3,834,831**	**100.0%**	**5,535,473**	**100.0%**

The stores generally receive customer payments made through both online and offline payment methods which represent the GMV generated in both self-owned stores and franchise stores. In our current settlement practice, for customer payment made through WeChat Pay and Alipay, the GMV will be directly deposited into a settlement account independently operated by a third-party licensed financial institution. For cash received from our customers, we require each of our stores to adhere strictly to our internal cash management policies, including the deposit of all cash receipts into the settlement account on a next-day basis.

Under such settlement arrangement, the settlement bank generally remits respective entitled portion of the GMV to our Group and the relevant store on the next day after receipt of such deposit of the GMV.

We leverage our integrated KPOS system to monitor the sales activities in both our self-owned stores and franchise stores. Our store managers conduct daily reconciliation of sales records in the KPOS system based on the actual cash receipts and other forms of payment. The reconciliation reports are submitted to the Accounting Department at our headquarters, for a cross-check between the sales records, the actual cash receipts and the amount of cash deposited into our settlement account on a timely basis. We have also installed surveillance cameras in counter cashier areas of the stores to monitor and prevent improper behavior including misappropriation and theft of cash.

During the Track Record Period and up to the Latest Practicable Date, there was no material misappropriation of cash in the stores under our retail brands nor major discrepancy in our sales reconciliation.

In 2020 and the first eight months of 2021, substantially all of our franchisees were involved in our historical settlement arrangement where customer payment were directed into our own bank accounts and we distributed the portion entitled to the relevant stores after deducting the portion entitled to us. Such historical settlement arrangement was related to the inherent nature of our store management arrangements, where parties deem it convenient for us to settle parties' respective entitled portion. Since September 2021, we terminated such historical settlement arrangement and engaged the third-party licensed financial institution to settle payments.

Our PRC Legal Advisers are of the view that the possibility for us to be retrospectively penalized for such historical unlicensed payment settlement activities is low, based on that

- historical payment arrangement with the franchise stores has been terminated and since then all operating income from the franchise stores has been deposited into and settled by the third party licensed financial institution; and

- in the interview conducted with the Shanghai Head Office of the People's Bank of China, the competent authority, the interviewee confirmed that

    - if an enterprise manages its franchise stores under a unified brand policy, and cooperates with a bank which is responsible for receiving and clearing the operating income in accordance with the agreements entered into by such enterprise and the franchisees, such conduct shall not constitute unlicensed payment settlement; and

    - since we have rectified the historical unlicensed payment arrangement through the cooperation with the third party licensed financial institution, we will not be retrospectively penalized for the historical unlicensed payment settlement activities under normal conditions.

Our PRC Legal Advisers are also of the view that current settlement practice is not in violation of the relevant laws and regulations based on the interview conducted with the Shanghai Head Office of the People's Bank of China. See "Risk Factors — Risks Relating to Our Business and Industry — 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."

OUR MERCHANDISE OFFERINGS

During the Track Record Period, we generated revenue mainly from the (i) sale of third party brand merchandise under distribution agreement with Third Party Brand Suppliers, and (ii) sale of self-owned brand merchandise which were manufactured by the OEM and ODM contractors we engaged.

Our Merchandise Sourcing Procedures and Selection Policy

Identifying Third Party Brand Merchandise

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, the sales of third party brand merchandise accounted for 87.0%, 87.0%, 89.5% and 86.2%, respectively, of our total revenue generated from sale of goods during the same periods. Our annual sales were heavily weighted in the segment of third party brand merchandise sales as we constantly seek to offer new and attractive products to our customers. Leveraging our strong market research and data analytic capabilities, we are able to identify merchandise with great market potential. We incessantly explore new merchandise through various avenues to enrich the offerings on our store shelves. As part of our development strategies, we regularly conduct industry research, participate in trade fairs and conventions, and meet with new brands owners, authorized dealers and distributors to discover new merchandise with high potential. In addition, we invested in the development of a proprietary data analytical software, namely BI, tailored to provide us with a thorough insight on consumer behavior and changing market trends. Through data intelligence, we endeavor to visualize the needs of our consumers and react to market demand in a timely manner.

Apart from the typical procurement agreements we entered into with our Third Party Brand Suppliers, we also enter into exclusive distribution agreements for merchandise that we believe will align us with our business strategies. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, we entered into 59, 105, 143 and 97 exclusive distribution agreements with our Third Party Brand Suppliers, respectively. During the Track Record Period, we had two types of exclusive distribution agreements with our Third Party Brand Suppliers, containing two types of exclusive rights of distribution, namely (i) exclusive right for us to distribute certain merchandise and (ii) exclusive right for us to distribute certain brand containing various merchandise, within the territories as specified in the respective agreements. These exclusive distribution agreements typically have a term ranging from six months and one year and were renewable upon negotiation.

We also constantly have special arrangements with certain Third Party Brand Suppliers to manufacture their merchandise in accordance with our specific requirements such as the size of the packaging and special flavors. We determine specification of these special merchandise based on our study of customer behavior and the concepts of our different store brands to attract and retain target customers' loyalty.

Determination of Our Self-owned Brand Merchandise

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, the sales of our self-owned brand merchandise accounted for 13.0%, 13.0%, 10.5% and 13.8%, respectively, of our total revenue generated from sale of goods during the same periods. We develop our self-owned brand merchandise through the engagement of OEM and ODM contractors and we further sell the finished merchandise to our customers. The production of our self-owned brand merchandise is fully outsourced to OEM and ODM contractors. For details on our OEM and ODM contractors, see "— Our Suppliers and Raw Materials — Our OEM and ODM Contractors."

During the Track Record Period, we introduced our self-owned brand merchandise under the product categories of (i) women's accessories, beauty tools, cosmetics, and skincare products, (ii) daily supplies and household products, (iii) food, and (iv) stationery and toys.

When determining the types of merchandise to be produced under our self-owned brand, we take into account considerations such as (i) the extent of customers' brand loyalty to comparable merchandise supplied by other brands in the market, (ii) substitutability of the particular merchandise, (iii) the ability to set the price of the merchandise at a premium, and (iv) whether the current market has addressed the prevailing customer demand.

We had registered 59 patents in China, comprising 56 design patents and three utility patents as of October 31, 2023. We plan to continue to invest in product design, research and development. In addition, we began the production of our own brands of pop toys in December 2020 by engaging external designers to create original pop toy products and offer them in the stores. The underlying intellectual properties of such pop toy products are owned by us. For details, see "— Intellectual Properties."

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, none of our purchases from any of the OEM and ODM contractors exceeded 5.0% of our total purchases in each year and period during the Track Record Period.

Our Merchandise Selection Criteria and Process

We use the product information system and the selection system, to understand the market indicators of each product brand. These systems process and analyze our own platform and Internet disclosure, allowing us to quickly and accurately understand the current market environment. By leveraging these systems, our product identification process is data-centric, and the issues of judgment errors and subject biases have been roughly deleted. See "— Information Technology."

- *Selection Pool.* By leveraging these systems, our specialized in-house merchandise buyers in our store development and operation department under each of our four retail brands are able to screen through a vast amount of new products launched in the market and refine our merchandise candidates to only a small pool with the greatest potential. See "— Our Merchandise Buyers." Once a pool of merchandise candidates has been determined, our merchandise buyers will utilize the available indicators (such as online opinion and actual sales volume) derived from the selection system and nominate a number of merchandise candidates to the next round of selection process. In determining candidate merchandise to be brought to next stage, our merchandise buyers take into account a broad range of factors, including (i) popularity of relevant product based on historical sales record and market trend anticipation; (ii) aesthetical appeal; (iii) attraction to our target customers; and (iv) pricing.

- *Merchandise Voting.* Our new merchandise committee is in charge of selecting from the pool a number of appropriate new merchandise candidates, for which we later enter into trial stage purchasing agreement with the relevant Third Party Brand Suppliers, in the case of procuring third party brand merchandise, or manufacturing agreement with some OEM and ODM contractors, in the case of self-owned brand merchandise. This committee comprises our senior management team and experienced employees from the relevant departments managing each specific category of merchandise. As of October 31, 2023, we had 45 members on the new merchandise committee.

  We hold weekly merchandise review meetings to determine merchandise candidates for their launching in the stores. Our new merchandise committee members will vote to decide whether a merchandise candidate will be brought to the shelf in the stores, based on a broad range of factors, including (i) our merchandise refreshment strategy and expected life-cycles of relevant products; (ii) prevailing market trend and competition; (iii) current store development plan; (iv) aesthetical appeal and pricing of relevant merchandise; and (v) the availability and sales performance of similar merchandise in the same product category.

- *Trial Sale.* For product candidates approved by our new merchandise committee, we would enter into trial stage purchasing agreement with the relevant Third Party Brand Suppliers, in the case of procuring third party brand merchandise, or manufacturing agreement with ODM contractors, in the case of self-owned brand merchandise, according to which we would procure a flexible volume of the merchandise for a trial sale. Merchandise that fail to meet our sales target in the trial sale stage would be returned and we only made purchasing arrangement on merchandise that had passed our trial sale tests for further full store network-wide sales. In addition, we also set out strict quality check clauses according to which we are entitled to return any unqualified goods we identified upon inspection.

  The trial sale of a merchandise candidate generally lasts two weeks where we typically conduct an initial trial in around 30 stores nationwide for approximately two weeks. Only merchandise candidates that had successfully passed the initial trial stage would enter into the second trial stage where the merchandise candidates would be further introduced in 30 stores. We take advantage of our proprietary KPOS system which allows us to monitor sales performance and consumer feedback for each SKU of the merchandise candidates closely, helping us gain a thorough and objective understanding of market response toward the relevant candidate. We rely on the data generated during the trial stage period to determine whether the merchandise candidate will be introduced into the merchandise portfolio of the stores.

  Our merchandise selection process is objective and data-centric, which we believe is key to the long-term success of our business operation. A merchandise candidate has to meet a pre-determined threshold as set out in our internal selection policy before it can be adopted. We believe the trial sale process allows us to accurately identify the most appealing product with evident competitiveness in a cost-efficient way. Through the entire suite of our internal merchandise selection procedures, we could effectively mitigate risks associated with the inevitable difficulty in determining mass customers' preference and market trend that keeps evolving. We distinguish ourselves from the typical traditional retailers as our merchandise identification is data-centric. Benefiting from our effective merchandise screening procedures through which we narrow down our candidate products from a large pool to a small pool of highly selective ones.

- *Merchandise Refreshment.* For merchandise that has been brought to the shelf in the stores after the trial sales, we generally consider eliminating these merchandise whose monthly sales fall into the bottom 10% of the entire sub-category where these merchandise belong. Our merchandise offerings elimination rate in the ten months ended October 31, 2023 was approximately 23.9%, measured by SKUs eliminated divided by total SKUs in the ten months ended October 31, 2023. In both self-owned stores and franchise stores, we continue to sell these merchandise in stock while we will not procure such eliminated merchandise for future sale in stores.

Our Merchandise Buyers

Our merchandise buyers are a group of in-house specialist buyers categorized into various teams based on product categories such as cosmetics and beauty products, skin care products, liquor, food, nutrition products, baby products, pet products, daily products, pop toys, stationery, household products, clothing, and accessory. They are tasked with duties of identifying merchandise from a sea of products in the market with the aid of PSS, analyzing market potential of merchandise candidates and presenting them to our new merchandise committee and negotiating terms with the potential suppliers.

Our merchandise buyers are one of the pillars to our merchandise selection structure, which supports the foundation of our business success. Given their importance, we have adopted a uniform policy in regulating their performance and incentivizing them. The performance of each merchandise candidate recommended by one merchandise buyer will form the basis of his/her performance evaluation. When evaluating our merchandise buyers' performance, we generally consider selected merchandise's performance, such as its profit margin, sales, merchandise candidates selected for permanent offering and merchandise refreshment rate. We reward our high-achieving merchandise buyers accordingly and may eliminate those who do not meet our pre-determined standards.

Our merchandise buyers recommend new merchandise candidates regularly during our weekly merchandise reviews. We believe that with constant input of diversified ideas contributed by our merchandise buyers, we are able to keep up with the ever-changing consumer preference and identify fast-selling merchandise for the stores.

OUR SUPPLIERS AND RAW MATERIALS

Our Suppliers

Our suppliers include Third Party Brand Suppliers and OEM and ODM contractors. As of October 31, 2023, we sourced merchandise locally and globally from 1,179 Third Party Brand Suppliers, and engaged 157 OEM and ODM contractors to manufacture our self-owned brand merchandise. As of October 31, 2023, approximately 71.7% of our suppliers were in China. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, our purchase amount from the five largest suppliers in each year or period during the Track Record Period was RMB330.7 million, RMB220.6 million, RMB146.8 million and RMB170.6 million, which accounted for approximately 18.1%, 7.2%, 6.6% and 6.5% of our total purchases, respectively. Our suppliers may grant us a credit term up to 45 days. The following table sets forth our five largest suppliers in each year or period during the Track Record Period and their respective contribution to our total purchase during the Track Record Period:

For the year ended December 31, 2020

	Suppliers	Product/ service supplied	Background	Years of relationship	Credit terms	Settlement method	Purchase amount by us	% of total purchase
							RMB in million	
1	Supplier A	Materials	The supplier is a manufacturing company based in Guangdong Province, China specializing in designing and producing display shelf equipments. Established in 2018, it has a registered capital of RMB10.0 million.	One year and eight months	30 days	Bank transfer	94.7	5.2%
2	Supplier B	Cosmetics, household products, stationary	The supplier is a wholesaler based in Guangdong Province, China. Established in 2016, it has a registered capital of RMB5.0 million.	Three years	Prepayment	Bank transfer	82.6	4.5%
3	Supplier C	Cosmetics, skincare, facial mask	The supplier is a regional brand agent based in Guangdong Province, China. Established in 2011, it has a registered capital of RMB5.0 million.	Five years and two months	15 days upon delivery of goods and receipt of invoice	Bank transfer	65.2	3.6%

	Suppliers	Product/ service supplied	Background	Years of relationship	Credit terms	Settlement method	Purchase amount by us	% of total purchase
							RMB in million	
4	Supplier D	Cosmetics, skincare, facial mask	The supplier is a regional brand agent based in Zhejiang Province, China. Established in 2013, it has a registered capital of RMB0.5 million.	Three years and five months	15 days upon delivery of goods	Bank transfer	52.7	2.9%
5	Supplier E	Food, maternal and infant products, liquor	The supplier is a regional brand agent based in Guangdong Province, China. Established in 2016, it has a registered capital of RMB1.0 million.	Three years and seven months	15 days upon delivery of goods	Bank transfer	35.5	1.9%

For the year ended December 31, 2021

	Suppliers	Product/ service supplied	Background	Years of relationship	Credit terms	Settlement method	Purchase amount by us	% of total purchase
							RMB in million	
1	Supplier C	Cosmetics, skincare, facial mask	The supplier is a regional brand agent based in Guangdong Province, China. Established in 2011, it has a registered capital of RMB5.0 million.	Six years and two months	15 days upon delivery of goods and receipt of invoice	Bank transfer	69.1	2.3%
2	Supplier E	Food, maternal and infant products, liquor	The supplier is a regional brand agent based in Guangdong Province, China. Established in 2016, it has a registered capital of RMB1.0 million.	Four years and seven months	15 days upon delivery of goods	Bank transfer	51.4	1.7%
3	Supplier D	Cosmetics, skincare, facial mask	The supplier is a regional brand agent based in Zhejiang Province, China. Established in 2013, it has a registered capital of RMB0.5 million.	Four years and five months	15 days upon delivery of goods and receipt of invoice	Bank transfer	37.3	1.2%

	Suppliers	Product/ service supplied	Background	Years of relationship	Credit terms	Settlement method	Purchase amount by us	% of total purchase
							RMB in million	
4	Supplier F	Cosmetics, skincare	The supplier is a wholesaler based in Guangdong Province, China. Established in 2017, it has a registered capital of RMB10.0 million.	Three years and seven months	7 days upon delivery of goods and receipt of invoice	Bank transfer	32.6	1.1%
5	Supplier G	Daily products, household products	The supplier is a wholesaler based in Shandong Province, China. Established in 2018, it has a registered capital of RMB5.0 million.	One year and four months	15 days upon delivery of goods	Bank transfer	30.2	1.0%

For the year ended December 31, 2022

	Suppliers	Product/ service supplied	Background	Years of relationship	Credit terms	Settlement method	Purchase amount by us	% of total purchase
							RMB in million	
1	Supplier E	Food, maternal and infant products, liquor	The supplier is a regional brand agent based in Guangdong Province, China. Established in 2016, it has a registered capital of RMB1.0 million.	Five years and seven months	Payment on the receipt of invoice	Bank transfer	37.6	1.7%
2	Supplier C	Cosmetics, skincare, facial mask	The supplier is a regional brand agent based in Guangdong Province, China. Established in 2011, it has a registered capital of RMB5.0 million.	Seven years and two months	15 days upon delivery of goods and receipt of invoice	Bank transfer	33.6	1.5%
3	Supplier H	Cosmetics	The supplier is a brand partner based in Guangdong Province, China. Established in 2021, it has a registered capital of RMB5.0 million.	Eleven months	15 days	Bank transfer	26.0	1.2%
4	Supplier I	Food and daily products	The supplier is a brand partner based in Shanghai. Established in 2019, it has a registered capital of RMB2.0 million.	One year and nine months	15 days	Bank transfer	24.9	1.1%

	Suppliers	Product/ service supplied	Background	Years of relationship	Credit terms	Settlement method	Purchase amount by us	% of total purchase
							RMB in million	
5	Supplier J	Skincare and facial mask	The supplier is a brand partner based in Heilongjiang Province, China. Established in 2017, it has a registered capital of RMB400.0 million. Its securities are traded on the Shenzhen Stock Exchange.	One year and six months	Payment on the receipt of invoice	Bank transfer	24.7	1.1%

For the ten months ended October 31, 2023

	Suppliers	Product/ service supplied	Background	Years of relationship	Credit terms	Settlement method	Purchase amount by us	% of total purchase
							RMB in million	
1	Supplier E	Food, maternal and infant products, liquor	The supplier is a regional brand agent based in Guangdong Province, China. Established in 2016, it has a registered capital of RMB1.0 million.	Six years and five month	Payment on the receipt of invoice	Bank transfer	51.2	1.9%
2	Supplier H	Cosmetics	The supplier is a brand partner based in Guangdong Province, China. Established in 2021, it has a registered capital of RMB5.0 million.	One year and nine months	15 days	Bank transfer	32.5	1.2%
3	Supplier K	Cosmetics and daily product	The supplier is a brand partner based in Shanghai. Established in 2017, it has a registered capital of RMB10.0 million.	One year and ten months	Payment on the receipt of invoice	Bank transfer	31.9	1.2%
4	Supplier L	Cosmetics and personal care product	The supplier is a regional brand agent based in Guangdong Province, China. Established in 2022, it has a registered capital of RMB1.5 million.	One year	7 days upon delivery of goods and receipt of invoice	Bank transfer	31.0	1.2%
5	Supplier M	Board game cards	The supplier is a brand partner based in Shanghai. Established in 2021, it has a registered capital of RMB10.0 million.	Ten months	60 days	Bank transfer	24.1	0.9%

All of our five largest suppliers in each year and period during the Track Record Period were Independent Third Parties. None of our Directors, their respective close associates or any of our Shareholders (who to the knowledge of our Directors owned more than 5% of our issued share capital) had any interest in any of our five largest suppliers in each year and period during the Track Record Period.

None of our five largest suppliers in each year or period during the Track Record Period were also our customers in each year or period during the Track Record Period.

Third Party Brand Suppliers

With our Third Party Brand Suppliers, we generally enter into procurement agreements with terms ranging from six months to one year for the supply of the merchandise as specified in the agreements. We believe that a short term procurement agreement will enable us with greater flexibility in switching our merchandise offerings in the stores, which is also in line with our fundamental business philosophy to offer our customers trendy and most sought-after merchandise in the market. The major third party brands which we cooperated with during the Track Record Period primarily include KISS ME, ZEESEA, Colorkey, Mistine, BOP and VOOLGA.

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, our sale of merchandise sourced from the top five Third Party Brand Suppliers in each year or period during the Track Record Period generally represented around 8.1%, 5.8%, 5.0% and 4.8% of our total GMV in the respective periods.

We consider merchandise refreshment a key competitive strength for the stores to attract and retain customers and to conduct rapid replacement based on our stringent review procedures. In recognition of our strong market influence underpinned by our premium store locations and excellent merchandise selection capabilities, we enjoy a strong bargaining power in sourcing and purchasing merchandise from different Third Party Brand Suppliers.

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, none of our Third Party Brand Suppliers contributed more than 5% of our GMV in the respective periods. We are not exposed to reliance risk related to our Third Party Brand Suppliers.

During the Track Record Period and up to the Latest Practicable Date, none of our distributorship agreements were terminated by the brand companies, none of the brand companies had refused to renew any of their distributorship agreements with us, nor were there any material adverse changes in the terms of our distributorship agreements with the brand companies.

None of our Directors or their respective close associates or any of our Shareholder (who to the knowledge of our Directors owned more than 5% of the issued share capital) had any interest in the five largest Third Party Brand Suppliers from whom we sourced our merchandise during the Track Record Period.

Selection of Third Party Brand Suppliers

As we frequently reevaluate and refresh our merchandise offerings, we do not maintain a rigid list of Third Party Brand Suppliers whom we procure our merchandise from. Instead, we regularly conduct industry research, participate in trade fairs and conventions, and meet with new brands owners, authorized dealers and distributors to discover new products with high potential. We select our Third Party Brand Suppliers based on the following key considerations, among others: (i) popularity or market potential of their products, (ii) their ability to fulfill our orders, (iii) reputation of their brands, and (iv) saturation of their products in the market. Aside from that, prior to the entering of procurement agreements and depending on the origin and nature of the products, we would require the potential Third Party Brand Suppliers to provide us copies of certificates with respect to their capacity to enter into agreement with us. These certificates include business license, certificate of general taxpayer, trademark registration certificate, brand authorization, food business license, custom import products declaration form, third party test report and other applicable certificates. As a measure to prevent popular merchandise from selling out, we typically maintain a key supplier and two supplemental suppliers for the same brand merchandise.

Procurement Agreements with Third Party Brand Suppliers

With our Third Party Brand Suppliers, we generally enter into procurement agreements with terms ranging from six months to one year for the supply of the merchandise as specified in the agreements.

Principal commercial terms of the procurement agreements include:

- *Duration*. Our procurement agreements with Third Party Brand Suppliers generally have terms ranging from six months to one year.

- *Minimum purchase commitment*. None.

- *Anti-counterfeit clause.* The Third Party Brand Suppliers whom we entered into the distributorship agreements with shall be an authorized party to supply the relevant brand merchandise. We have the right to return goods received by us that are found to be counterfeits.

- *Pricing policy and resale price management*. We pay for the merchandise at the purchase price mutually agreed upon by both parties, which comprises product price, all taxes, packing fees and other expenses. There is no mandatory pricing requirement for the retail price or resale price for the merchandise supplied to us.

- *Delivery*. Our Third Party Brand Suppliers generally pay for the costs incurred from the transportation of the goods to our warehouses.

- *Legality of the supply*. We require our Third Party Brand Suppliers to provide us with the relevant certificates, files and other required information pursuant to the applicable legal requirements.

- *Order fulfillment*. We require the Third Party Brand Suppliers to fulfill not less than 95% of each of our orders placed during the contractual term.

- *Shelf life*. The products can be accepted only if the remaining shelf life is no less than two thirds of the whole shelf life of the products. In particular, for products with shelf life of 12 months, we require a remaining shelf life of no less than eight months; for products with shelf life of 18 months, we require a remaining shelf life of no less than 12 months; for products with shelf life of 24 months, we require remaining shelf life of no less than 16 months, when they arrive at our warehouse.

- *Credit and payment terms*. We generally have a credit period of up to 45 days from the date of delivery. Our settlement currencies are mainly in RMB.

- *Return or exchange of products*. We are allowed to return or exchange defective products and the costs incurred as a result of which shall be borne by the Third Party Brand Suppliers.

- *Intellectual property*. Pursuant to the distributorship agreements, we are authorized to sell the merchandise carrying the brand name and logo of the relevant brand.

- *Termination*. The distributorship agreement can be terminated by either party upon the occurrence of certain specified force majeure events or terminated by the non-breaching party upon the occurrence of a material breach.

- *Liability*. The suppliers are liable to any product defects and liabilities. We are entitled to terminate the agreement unilaterally and to be indemnified for any loss arising from defective products.

Our OEM and ODM Contractors

Given that our Group is headquartered in Guangdong Province, we enjoy a natural geographic advantage for being located within the core of the manufacturing hub in China, which allows us to manage our OEM and ODM model more efficiently. During the Track Record Period, we primarily adopted an OEM and ODM business model to produce our self-owned brand merchandise. This strategy allowed us to avoid extensive direct exposure to the risks and expenses of operating production facilities, while at the same time promptly adjust our product offerings in response to shifting market trends so as to maintain a competitive cost structure. In addition, with an OEM and ODM production model, we could have more control over the supply of merchandise and inventory level in the stores without relying solely on the Third Party Brand Suppliers.

Under our OEM model, we have an in-house product design team responsible for the design, research and development of our brand merchandise in terms of their aesthetical appearances and functionalities. Our designs are subsequently given to our OEM contractors to produce prototypes for our internal review prior to bulk production. As of October 31, 2023, this team comprised 17 designers and product managers.

Under our ODM model, the ODM contractors are generally responsible for providing product designs, procuring raw materials, manufacturing products, and identifying and supervising sub-contracted manufacturers (where applicable). Our product design team work closely with the contractors to review and determine the artistic and outlook designs of our self-owned brand merchandise according to the anticipated fashion trends and consumers' preference.

Selection of OEM and ODM Contractors

Each of our potential OEM and ODM contractors undergoes an approval process before entering into any business relationship with us. We employ various evaluation and assessment criteria in selecting our OEM and ODM contractors, including industry experience, their ability to meet our requirements, production capacity, customers they had served before, quality management, qualifications, and ability to meet our delivery timeline.

We typically involve three to five leading OEM or ODM contractors of the same type and conduct comprehensive surveys on these candidates who will undergo a preliminary approval process. Once an OEM and ODM contractor has passed our approval process, we perform sampling of the prototypes it manufactures based on our needs.

Management of OEM and ODM Contractors

We employ an integrated supply chain management system for our outsourced merchandise. The production cycles of our OEM and ODM contractors vary depending on the product produced and the raw materials used.

We impose stringent criteria in evaluating the performance of our existing OEM and ODM contractors. We closely monitor the performance of our OEM and ODM contractors through the following measures, where we assess each contractor's on-time delivery rate, product quality passing rate, after-sale services and other performance indicators:

- we inspect products arriving in our warehouses, and we would return any unqualified goods we identified upon reception;

- our OEM and ODM contractors are subject to routine quality control checks. Pursuant to our quality control guidelines, we terminate our relationship with any of OEM and ODM contractor that fails to meet our required standards for three consecutive months; and

- we conduct annual inspections of our OEM and ODM contractors to re-evaluate their overall performance and may terminate our business relationship with contractors who do not pass our annual inspection.

As of December 31, 2020, 2021 and 2022 and October 31, 2023, we had 138, 202, 193 and 157 OEM and ODM contractors, respectively. All of our OEM and ODM contractors are located in China.

We have been working with our OEM and ODM contractors for an average of one year. We believe that we have a good working relationship with our OEM and ODM contractors. Changes in the number of our OEM and ODM contractors during the Track Record Period were primarily due to (i) changes in our product mix and (ii) our termination of a small number of OEM and ODM contractors who did not pass our annual inspection or failed to adhere to our required standards.

We maintain stringent quality control standards in the selection and management of our OEM and ODM contractors and throughout the outsourcing process. See "— Quality Control." We are exposed to risks related to our reliance on third-party OEM and ODM contractors. See "Risk Factors — Risks Relating to Our Business and Industry — We rely on third-party OEM and ODM contractors for the manufacturing of our self-owned brand merchandise. Our brand image and business may be negatively affected by a disruption in the supply of our OEM and ODM contractors."

Supply Agreements with OEM and ODM Contractors

Our supply agreements with OEM and ODM contractors generally have a term of approximately 12 months. These supply agreements set forth fundamental terms in relation to the qualification of the OEM and ODM contractors, order placement process, production commitment of the OEM and ODM contractors, quality standards, pricing terms, delivery protocols, inspection and acceptance of products, return policies, payment terms, protection of trademarks and other intellectual properties rights and confidentiality obligations. For our arrangements with OEM contractors, we will inspect the prototype manufactured based on our own design prior to commencing mass production of the relevant merchandise. In respect of our agreements with ODM contractors, we generally require contractors to commence mass production only after obtaining our approval on their proposed designs and specifications. For our arrangements with OEM and ODM contractors, we can send our supervision team to inspect and oversee the raw materials, accessories, production process, and product quality of the OEM and ODM products.

Pursuant to the relevant supply agreements, our OEM and ODM contractors are obligated to fulfill all of our purchase orders and are not allowed to subcontract without our consent. Delivery charges and any damage to the products incurred during the transportation are borne by our OEM and ODM contractors.

We require our OEM and ODM contractors to keep confidential our trade secrets known or used by them in the design and manufacturing of our merchandise and to comply with the applicable legal requirements. In addition, molds used in the production of our self-owned brand merchandise shall not be used by our OEM and ODM contractors for the manufacturing of orders placed by other parties. We retain the intellectual property rights to products manufactured by our OEM and ODM contractors. Our OEM and ODM contractors are required to indemnify us in the event they disclose our trade secrets to any other third party without our prior consent or if they reproduce or sell the merchandise with our brand name to other parties.

To cooperate with a new OEM or ODM contractor, we generally need to prepay 30% of payment for goods. After a period of time of collaboration, our OEM and ODM contractors generally grant us a credit period ranging from 30 to 60 days. We may return defective products upon delivery or at any time product defects are discovered.

During the Track Record Period, we did not have any material disputes with our OEM and ODM contractors. We believe that the manufacturing capacity of our OEM and ODM contractors is sufficient to meet our anticipated demand for the foreseeable future.

Raw Material Procurement

We do not procure raw materials for our OEM and ODM contractors, who are our finished product suppliers and source the raw materials themselves in accordance with our design and manufacturing specifications. However, our quality control personnel may inspect onsite and oversee the raw materials and accessories used in the production process.

During the Track Record Period and up to the Latest Practicable Date, we had no business interruption due to shortage or delay in our OEM and ODM contractors' procurement of raw materials.

The raw material prices of our merchandise fluctuate from time to time and may continue to fluctuate in the future. While our OEM and ODM contractors usually procure raw materials at market prices and therefore we do not have control over the raw material costs, we believe we can pass on any material increase in the raw material costs to our customers through appropriate pricing.

Internal Control Measures Aiming to Avoid Counterfeit Products

We have taken internal control measures aiming to avoid counterfeit products in terms of (i) procurement, (ii) warehousing and (iii) store sales.

Avoid Procuring Counterfeit Products

We take measures aiming to avoid procuring counterfeit products both before and after procurement:

- *Before procurement*. We generally conduct sample testing on the quality and authenticity of the relevant products before procurement. We require the relevant suppliers to provide the complete brand authorization proofs, and the proofs are reviewed by our in-house counsel, ensuring that these suppliers have obtained necessary authorizations from the brand owners.

- *Anti-counterfeit clause in procurement agreement*. We require the relevant supplier to represent in the agreement that it is an authorized party to sell the products, and failure to meet this representation will lead to material breach of the agreement. We are entitled to require our suppliers to indemnify us for any losses we suffer or any costs that we incur due to any counterfeit, substandard, unauthorized or infringing products we source from these suppliers. We are entitled to return goods that are found to be counterfeit products.

- *After procurement*. We require the relevant supplier to provide the manufacturer's quality inspection report stamped with the manufacturer's official seal regarding the relevant products. Once the products are received by us, we will first check customs declaration and sanitary inspection report for each batch of goods. We will designate our quality team or a professional inspection institution to examine the relevant anti-counterfeit labels or product warranty cards issued by the brand owners or authorized distributors of the products.

Avoid Storing Counterfeit Products

Only these products that have passed our quality and authenticity checks both before and after procurement can enter into our national distribution centers and warehouses.

To minimize the chance of future inadvertent sale of counterfeit products, our quality team has implemented more rigorous random quality and authenticity inspection of our products, to ensure the products in compliance with our standards before being introduced to our consumers. For example, our designated colleagues in quality team will visit our national distribution centers and warehouses periodically to check the product quality in several aspects such as labelling and packaging.

Avoid Selling Counterfeit Products in Stores

Only products under both third party brands and our self-owned brands procured from us and dispatched directly from our distribution centers and warehouses can be featured at the stores.

We encourage in-store staff to report to our quality team any incidents of counterfeit or substandard products and customers' complaints regarding product quality.

Once we become aware of any potential counterfeit products, we will collect supporting information, conduct sample testing, identify the source of the relevant products, suspend any sale of the relevant products and sort out possible solutions with the relevant suppliers to prevent the recurrence of such issue.

Our Directors are of the view that, our internal control measures regarding the counterfeit products are effective to prevent the occurrence of any material disputes over product authenticity and during the Track Record Period and up to the Latest Practicable Date, we had not encountered any material disputes over product authenticity.

OUR CUSTOMERS

Our customers consist primarily of our franchisees who are direct customers of the franchise stores and retail customers in our self-owned stores.

Our five largest customers

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, revenue generated from our five largest customers in each year or period during the Track Record Period was RMB367.4 million, RMB723.9 million, RMB624.3 million and RMB560.6 million, which accounted for approximately 22.3%, 20.5%, 17.6% and 11.8% of our total revenue, respectively.

All of our five largest customers in each year or period during the Track Record Period procured goods from us which were generally for sale in the franchise stores in our retail store network. The following tables set forth our five largest customers in each year or period during the Track Record Period, including their background and years of business relationship with us:

For the year ended December 31, 2020

	Customers	Background	Years of relationship	Credit terms	Settlement method	% of Revenue
1	Dongguan Xingkong Trading Co., Ltd. (東莞市星空貿易有限公司)	The customer is a corporation established in 2020 with a registered capital of RMB300 million.	Seven months	Monthly settlement	Bank transfer	5.2%
2	Customer A	The customer is an individual franchisee who is a natural person.	One year	Monthly settlement	Bank transfer	4.8%
3	Customer B	The customer is an individual franchisee who is a natural person.	Two years and four months	Monthly settlement	Bank transfer	4.5%
4	Customer C	The customer is an individual franchisee who is a natural person.	One year	Monthly settlement	Bank transfer	3.9%
5	Customer D	The customer is an individual franchisee who is a natural person.	One year and seven months	Monthly settlement	Bank transfer	3.9%

For the year ended December 31, 2021

	Customers	Background	Years of relationship	Credit terms	Settlement method	% of Revenue
1	Dongguan Xingkong Trading Co., Ltd. (東莞市星空貿易有限公司)	The customer is a corporation established in 2020 with a registered capital of RMB300 million.	One year and seven months	Monthly settlement	Bank transfer	12.8%
2	Customer B	The customer is an individual franchisee who is a natural person.	Three years and four months	Monthly settlement	Bank transfer	2.5%
3	Customer C	The customer is an individual franchisee who is a natural person.	Two years	Monthly settlement	Bank transfer	1.8%
4	Customer E	The customer is an individual franchisee who is a natural person.	Two years and four months	Monthly settlement	Bank transfer	1.8%
5	Yunnan Yanyan Trading Co., Ltd. (雲南延延商貿有限公司)	The customer is a corporation established in 2020 with a registered capital of RMB1.0 million.	One year and five months	Monthly settlement	Bank transfer	1.6%

For the year ended December 31, 2022

	Customers	Background	Years of relationship	Credit terms	Settlement method	% of Revenue
1	Dongguan Xingkong Trading Co., Ltd. (東莞市星空貿易有限公司)	The customer is a corporation established in 2020 with a registered capital of RMB300 million.	Two years and five months	Monthly settlement	Bank transfer	9.9%
2	Customer F	The customer is a corporation based in Indonesia. Established in 2022, it has a registered capital of Rp62.5 million.	Six months	Monthly settlement	Bank transfer	3.0%
3	Wenzhou Benju Trading Co., Ltd. (溫州市本巨貿易有限公司)	The customer is a corporation established in 2020 with a registered capital of RMB1.0 million.	Two years and one month	Monthly settlement	Bank transfer	1.8%
4	Customer B	The customer is an individual franchisee who is a natural person.	Four years and five months	Monthly settlement	Bank transfer	1.5%
5	Yunnan Yanyan Trading Co., Ltd. (雲南延延商貿有限公司)	The customer is a corporation established in 2020 with a registered capital of RMB1.0 million.	Two years and four months	Monthly settlement	Bank transfer	1.4%

For the ten months ended October 31, 2023

	Customers	Background	Years of relationship	Credit terms	Settlement method	% of Revenue
1	Customer F	The customer is a corporation based in Indonesia. Established in 2022, it has a registered capital of Rp62.5 million.	One year and six months	Monthly settlement	Bank transfer	8.8%
2	Customer G	The customer is a corporation based in Shanxi Province, China. Established in 2020, it has a registered capital of RMB1.0 million.	Two years and 10 months	Monthly settlement	Bank transfer	1.0%
3	Customer H	The customer is a corporation based in Gansu Province, China. Established in 2020, it has a registered capital of RMB1.0 million.	Three years and two months	Monthly settlement	Bank transfer	0.8%
4	Customer I	The customer is a corporation based in Guangdong Province, China. Established in 2016, it has a registered capital of RMB5.0 million.	Four years	Monthly settlement	Bank transfer	0.7%
5	Customer J	The customer is a corporation based in Qinghai Province, China. Established in 2020, it has a registered capital of RMB1.0 million.	Three years and two months	Monthly settlement	Bank transfer	0.5%

We have developed and maintained long-term business relationships with most of our customers even though we have not entered into long-term franchising agreements with them. All of our five largest customers in each year or period during the Track Record Period were Independent Third Parties except as otherwise disclosed below.

To the best of our knowledge, we conducted arm's length transaction with each of our customers during the Track Record Period. None of our Directors, their respective close associates or any of our Shareholders (who to the knowledge of our Directors owned more than 5% of our issued share capital) had any interest in any of our five largest customers in each year and period during the Track Record Period except as otherwise disclosed below.

Dongguan Xingkong Trading Co., Ltd. (東莞市星空貿易有限公司) was a joint venture company where we held 50% equity interest through Dongguan Kuaike Business Management Co., Ltd. (東莞市快客商業管理有限公司), our wholly owned subsidiary, while the remaining 50% was held by Dongguan Yihao Equity Investment Partnership (Limited Partnership) (東莞市壹號股權投資合夥企業(有限合夥)), an Independent Third Party with Fang Shibo (方仕波) as its ultimate beneficial owner. Our sales to Dongguan Xingkong Trading Co., Ltd. were RMB85.5 million, RMB452.0 million and RMB352.6 million respectively in 2020 and 2021 and the ten months ended October 31, 2022, primarily due to the quick ramp-up of our franchise store network particularly franchise stores with investment since 2020. To the best of our knowledge, neither Dongguan Yihao Equity Investment Partnership (Limited Partnership) nor Fang Shibo had any other pre-existing or present relationships, including, without limitation, business, employment, family, financing, trust or otherwise, with our Group, their shareholders, directors or senior management, or any of their respective associates except for such joint venture arrangement.

In October 2022, we completed the acquisition of an additional 50% equity interest in Dongguan Xingkong Trading Co., Ltd., increasing our equity interest in Dongguan Xingkong Trading Co., Ltd. to 100%. As a result of the acquisition of Dongguan Xingkong Trading Co., Ltd., we converted 122 franchise stores with investment situated in 61 cities in China into wholly owned stores which represented 17.4% of our total number of stores as of October 31, 2022.

Both Yunnan Yanyan Trading Co., Ltd. (雲南延延商貿有限公司) and Wenzhou Benju Trading Co., Ltd. (溫州市本巨貿易有限公司) were joint ventures where we held 50% of the shares and the relevant franchisees held 50% of the shares. We completed equity acquisition of Yunnan Yanyan Trading Co., Ltd. and Wenzhou Benju Trading Co., Ltd., increasing our equity interest from 50% of the shares to 100% of the shares, from October 2022 to December 2022. See "History, Reorganization and Corporate Structure — Major Acquisitions, Disposals and Mergers — Acquisitions of Joint Ventures and Non-wholly Owned Subsidiaries" and "— Store Network Optimization Initiatives."

None of our five largest customers in each year or period during the Track Record Period were also our suppliers in each year or period during the Track Record Period except for customer I. In the ten months ended October 31, 2023, customer I, a wholesaler, was also our supplier. The products we purchased from customer I mainly include food and the products we sold to customer I mainly include daily necessities and beauty products. In the ten months ended October 31, 2023, the amount of purchase and revenue contribution from customer I were less than 1.0% of our total purchases and total revenue, respectively.

LOGISTICS AND INVENTORY MANAGEMENT

Technology and digitalization are the bedrocks of our logistics operations, and we leverage the interface of our various proprietary and third party IT systems such as TERP, KPOS and WMS to manage our day-to-day transportation of goods in our supply chain. For details of our technology infrastructure, see "— Information Technology." Powered by our robust and advanced inventory management systems, we have adopted a logistics model that supports our nationwide store network.

Stores Ordering Process

Store orders will typically be fulfilled following the procedures as illustrated in the below diagram:

STEP 1:		STEP 2:		STEP 3:		STEP 4:
Automated delivery schedule/Store places ad hoc orders	»	Goods dispatched from NDC	»	Goods picked up by logistics service provider (LTL)	»	Goods out for delivery to individual stores

We normally maintain a certain level of inventory in our regional warehouses. The delivery of goods from our NDC to a regional warehouse is automated with the use of our logistics analytical intelligence based on the inventory levels of the respective stores. In addition, goods may also be dispatched from the NDCs following ad hoc orders placed by individual stores. For details of the management of our NDCs, see "— Our Distribution Centers and Warehouses."

When delivering goods from an NDC to an individual store, we generally engage third party logistics service providers who primarily offer a complete truck dedicated to our loads of merchandise which is overall cost-saving since the freight will travel fewer miles in the carrier's network and reduces product damage with no need to unload and reload our merchandise several times. When the goods arrive at a regional warehouse, we engage logistics service providers who primarily offer transport services for relatively small loads to deliver the goods to each individual stores. The delivery time required for the transportation of goods from NDCs to individual store will typically take an average of 3.5 days. With this delivery approach, the lead time from the initiation of order-placing to the delivery of the goods to individual stores can be effectively shortened.

Our Distribution Centers and Warehouses

We consider logistics and fulfillment an integral part of our suite of offerings and will continue to commit resources to enhance our logistics capabilities. With the delivery approach as discussed above, our network of NDCs and regional warehouses is critical in supporting the profitability of our business as it ensures that our merchandise can always be delivered to our end customers in the most cost-effective manner.

As of October 31, 2023, we had seven NDCs located in Foshan, Dongguan, Tianjin, Jiaxing, Chengdu, Wuhan and Shanghai. Our NDCs serve as our main inventory storage space where we receive goods supplied by our Third Party Brand Suppliers and OEM and ODM contractors before dispatching such goods to individual stores. Each of our seven NDCs has a designated serving region to ensure a smooth and speedy stock replenishment for our nationwide network of stores. We carefully selected the locations of our NDCs after taking into considerations of our retail store network in order to effectuate expeditious delivery and replenishment of inventory in the stores, ensuring that the needs of our customers are met and to achieve inventory optimization. The following table sets forth the details of our existing distribution centers as of October 31, 2023:

	Location	Total Gross Floor Area
		sq.m.
1	Foshan	15,836
2	Dongguan	8,376
3	Tianjin	13,861
4	Jiaxing	11,571
5	Chengdu	13,693
6	Wuhan	15,987
7	Shanghai	9,056

As of October 31, 2023, our regional warehouse network comprised seven leased warehouses. Leveraging on our self-developed TERP system that provides us a comprehensive view of inventory levels at group level and forecasts our replenishment needs, our NDCs and regional warehouses work in sync to fulfill orders from our sales channels.

Logistics and Warehousing

Depending on the terms of the agreements with our suppliers, our suppliers or we may bear the costs and losses associated with the delivery of goods from the place of origin or production facilities of the suppliers to our NDCs. To facilitate the order process with our suppliers, we rely on our supply chain collaboration system (供應鏈協同系統), a sub-system derived from our TERP system which allows us to conveniently track our procurement orders and status of delivery of the goods. When shipments from our suppliers arrive at our NDCs, they are stored in our NDCs by product categories. The SKU in our inventory will be bar-coded and tracked through WMS, allowing real-time monitoring of inventory levels across our NDCs and regional warehouse network and item tracking.

We have set up the Supply Chain Center in our headquarters to monitor the operations of our NDCs and logistics-related arrangements. The department oversees the fulfillment of automated orders and ad hoc orders from the individual stores to ensure optimization of the overall inventory level of our Group. It also formulates delivery schedules on a weekly basis to make sure that the replenishment of inventory in the stores can always be achieved in a timely manner. The goods stored in our NDCs will automatically be dispatched based on the weekly delivery schedules plotted by our Supply Chain Center. With the data generated from our logistics analytical intelligence which provides foresights as to the demand of each stores, the delivery schedules are constantly adjusted to reflect the changing customer traffic in each store.

In addition, with our TERP, WMS that integrates seamlessly with our KPOS systems installed in the stores, we are able to track in real time for each purchase made by our customers which allows us to continuously improve the space utilization and operational efficiency of our warehousing facilities. Relying on the foresights provided by our logistics analytical intelligence, the sequence of each delivery event can be planned to reduce latency while minimizing costs. Besides that, with sequences of delivery events efficiently formulated, it allows an optimal allocation of our delivery resources across different regions to reduce the occurrence of out-of-region fulfillment, or alternatively, the need to deliver goods directly from an NDC to individual store when certain merchandise is out of stock.

Management of Logistics Service Providers

We engage third party logistics service providers for the delivery of goods by land transportation from our NDCs and regional warehouses to our self-owned stores and franchisee stores. As of October 31, 2023, we had 11 third party logistics service providers, including eight in China and three in Indonesia. We typically enter into agreements with logistics service providers for product transportation annually. Under these agreements, the logistics service providers bear the risks and losses associated with product transportation as well as related insurance expenses, and are responsible for all losses associated with the delivery and transportation of the relevant products. The logistics service providers compensate us for all claims and losses arising from the conducts of their drivers and employees.

Our transportation arrangements with third party logistics service providers and courier companies allow us to reduce our capital investments in developing and maintaining an in-house logistics system. The risks relating to transportation and delivery of products are also transferred to third-party logistics service providers and courier companies. During the Track Record Period and as of the Latest Practicable Date, we had not experienced any significant delays or improper handling of goods that materially and adversely affected our business operations. Furthermore, there are sufficient alternative logistics service providers and courier companies in China that offer similar terms as our existing ones, and we do not anticipate any impediments in our intra-delivery system in the foreseeable future.

Inventory Control

Inventory control is an integral component in the success of our business and our profitability will be adversely affected when our inventory is held for excessive periods of time. Our technology-driven logistics and inventory management protocols have provided tangible contributions to our Group in terms of warehouse utilization, improved inventory turnover days, reduced delivery lead time and overall profitability.

In order to minimize our inventory carrying costs and the use of our working capital, we strive to maintain optimal inventory levels in our NDCs, regional warehouses as well as individual stores. Our inventory primarily consists of finished products procured from the Third Party Brand Owners and finished products of our own brands we ordered from OEM and ODM contractors. Our inventory management process adopts a first-in-first-out policy. Our WMS system has been configured with the functions to indicate the expiration date of each SKUs and to automatically generate the storage positioning of such inventories with closest expiration dates for the purpose of priority picking and delivering stocks for replenishment which effectively strengthens our inventory control and lessen obsolete and/or expired inventories.

Each item of merchandise that we offer has a unique SKU for identification in our WMS system and is linked to our KPOS system. The cashiers at our self-owned stores and franchise stores that are equipped with our KPOS terminals will scan the bar code merchandise being sold. Sales data from each of these store's KPOS terminal is collated and uploaded to the TERP system, and transferred to our logistics analytical intelligence for delivery schedule formulation.

QUALITY CONTROL

Our business emphasizes the provision of outstanding customer shopping experiences. The quality of the merchandise we offer in the stores remains our key focus to maintain and grow customers' loyalty. We follow stringent quality control procedures to ensure that the merchandise we procured from our Third Party Brand Suppliers or manufactured by our OEM and ODM contractors are of satisfactory quality and meet the relevant safety standards.

Some of the national safety guidelines that we have followed closely include the followings:

- In relation to color cosmetics and beauty products, Product Quality Law of the PRC《中華人民共和國產品質量法》, Regulation on the Supervision and Administration of Cosmetics《化妝品監督管理條例》, Cosmetic Safety Technical Specifications 《化妝品安全技術規範》, Regulation on the Supervision and Administration of Medical Devices 《醫療器械監督管理條例》 and others

- In relation to food and beverage, Food Safety Law of the People's Republic of China《中華人民共和國食品安全法》、 GB2760 National Food Safety Standard for Use of Food Additives 《GB2760食品安全國家標準食品添加劑使用標準》、 GB2761 National Food Safety Standard Limit of Myotoxins in Food《GB2761食品安全國家標準食品中真菌毒素限量》、 GB2762 National Food Safety Standard Limit of Pollutant in Food《GB2762食品安全國家標準食品中污染物限量》 and others

- In relation to toys, GB6675.1 Toy Safety Section I: Basic Rules《GB6675.1玩具安全第1部分：基本規範》、GB6675.2 Toy Safety Section II: Mechanical and Physical Properties《GB6675.2玩具安全第2部分：機械與物理性能》、GB6675.3 Toy Safety Section III: Flammability《GB6675.3玩具安全第3部分：易燃性能》、GB6675.4-2014 Toy Safety Section IV: Migration of Specific Elements《GB6675.4-2014玩具安全第4部分：特定元素的遷移》、GB6675.14 Toy Safety Section 14: Finger Paint Technical Requirements and Test Methods《GB6675.14玩具安全第14部分：指畫顏料技術要求及測試方法》 and others

We have developed a comprehensive and effective quality management system as part of our commitment to adhering to stringent quality control standards. In our procurement of merchandise from Third Party Brand Suppliers model, we require them to submit various qualification certificates such as inspection and quarantine certificate, product tax clearance certificate and trademark registration certificate for each batch of products. In our OEM and ODM model, we have formulated detailed manufacturing standards and rigorous quality control guidelines and protocols that govern the entire production process, from product design and development and sourcing of raw materials to the packaging and shipment of finished products. In addition, we have established a comprehensive product safety risk prevention system, which aims to minimize the number of safety incidents arising from the use of our products. When our orders are delivered to our warehouses, our staff will perform inspections on the goods. Any nonconforming products will be returned immediately at the costs of the suppliers.

Pursuant to the Consumer Protection Law, where a business operator has discovered a defect in its goods or services provided which may harm personal or property safety, it shall immediately report to the relevant administrative authorities and notify consumers, and adopt measures such as suspension of selling, alert, recall, decontamination, and destruction. We would purchase products based on assessment of their quality and security, and the majority of the relevant purchase agreements between the suppliers and us would provide relevant product warranty period or product warranty and indemnity clauses. Our product recall policies provide that, if we discovered a defect in its goods or services provided which may harm personal or property safety, we would adopt necessary measures such as suspension of selling, alert, recall, decontamination and destruction. During the Track Record Period, there was no material product return or recall. Our PRC Legal Advisers are of the view that the product return and recall policies have complied with the applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date in material aspects.

As of October 31, 2023, we had assembled a dedicated quality control team consisting of 16 employees who are responsible for monitoring quality risks throughout the whole process of product development, manufacturing, delivery and sales.

SALES AND MARKETING

During the Track Record Period, our advertising and marketing expenses were approximately RMB12.5 million, RMB45.4 million, RMB77.6 million and RMB75.2 million in 2020, 2021 and 2022 and the ten months ended October 31, 2023, respectively. During the Track Record Period, we did not carry out price deduction promotion as part of our primary marketing strategies as we believe that such strategy does not align with our brand concept which focuses on delivering extraordinary retail shopping experiences.

We have been continuously exploring our sales and marketing strategies and adjust them from time to time according to the market demands and trends which are constantly evolving. Our proactive explorations and measures primarily include the following:

Utilization of Social Medial Influence

We acknowledge the growing importance of consumer engagement desired by the younger generation of consumers, and implemented initiatives to deepen the consumer engagement experience with the setting-up of official brand accounts managed by us on social media platforms. Our customers can watch our live-streaming videos and interact with us through these platforms. As the China market is increasingly acclimated to a social media economy, we believe that our approach will reinforce customer affinity and extend our brand outreach to the public. In addition, during the Track Record Period, we also commissioned public accounts on WeChat to promote our new stores to increase our brand exposure to attract more customer traffic in the stores.

We strive to create an environment in the stores for photo-taking for our customers to post eye-catching digital contents online ("打卡"). When such content becomes viral online, we are able to effectively and rapidly increase the awareness of our brands among our potential customers.

Self-owned Brand Merchandise Marketing

The stores offer a broad range of merchandise to our customers including those manufactured under our self-owned brand name and those we sourced from Third Party Brand Suppliers. We endeavor to provide customer-centric and special retail shopping experiences by giving our customers numerous choices. We introduced our self-owned brand merchandise in the stores with the primary objective of giving our customers not just shopping options, but also quality merchandise with great value. We believe that our self-owned brand merchandise and merchandise sourced from Third Party Brand Suppliers are not in competition with each other. We uphold our brand concept as an integrated retailer where our customers can find the most popular and sought-after brand merchandise in one place, and there is no intention nor need to replace third party brand merchandise with our self-owned brand merchandise.

Premium Membership Program

To enhance customer loyalty and encourage customer spending in the KKV stores in our store network, we launched a KKV premium membership program (黑金會員計劃) in April 2023. Customers can subscribe our premium membership program by paying a subscription fee for a 12-month period. During the 12-month period, our subscribers for such program can get extra coupons and discounts off the payment at the checkout. As of December 31, 2023, we had over 690 thousand subscribers for such program. See "Financial Information — Discussion of Certain Statements of Financial Position Items — Current Assets and Current Liabilities — Contract Liabilities."

PRICING POLICY

While our Group operates four retail brands, we adopt a uniform pricing strategy across our brands by taking into various factors such as procurement costs, our target profit margins for each merchandise, general market trends, the popularity, availability and comparability of identical or similar products in the market, the place of origin of the product, purchasing power of our target customers and prices set by our competitors. As we regularly review the pricing of our merchandise, we believe that we are able to divert increased costs to our customers effectively.

SEASONALITY

We typically experience higher sales during national holidays in China, such as Labor Day and National Day. Apart from that, our merchandise may also experience higher demand during festive seasons such as Chinese New Year, Christmas and Valentines' day. Given our comprehensive product offerings, we do not believe that seasonality has any material effect on our results of operations as a whole.

COMPETITION

According to the Frost & Sullivan Report, the offline-driven non-grocery retail market reached RMB268.5 billion by GMV in 2022, marking a CAGR of 6.9% from 2018 to 2022, and is expected to reach RMB655.5 billion in 2027, representing an estimated CAGR of 19.5% from 2022 to 2027. Moreover, the competition in the offline-driven non-grocery retail market in China is fierce and fragmented, top five players have a total market size of approximately RMB36.1 billion by GMV, accounting for 13.4% of the offline-driven non-grocery retail market in China in 2022, and leading players are expected to gain more shares and the level of market concentration is expected to increase, according to the Frost & Sullivan Report.

We were one of the top three offline-driven non-grocery retailers for lifestyle products in China by GMV in 2022, according to the Frost & Sullivan Report. Besides, we are unique primarily because we operate in all three major segments in the offline-driven non-grocery retail market, namely featured variety, beauty, and pop toys. Our KKV and KK Guan brands collectively ranked the second in the featured variety segment, THE COLORIST ranked third in the beauty segment, and X11 ranked fifth in the pop toy segment, in terms of GMV, in China's offline-driven non-grocery retail market in 2022, according to the Frost & Sullivan Report.

There are various entry barriers for new market entrants, including accurate merchandise selection capacity, capital management, and brand power and branding capacity, data-driven operation management as well as supply chain control, according to the Frost & Sullivan Report.

We believe that by leveraging our pioneering position and brand recognition, our ability to offer quality, trendy and broad appeal product mix procured from the international market at competitive prices, our stable collaborative relationships maintained with our suppliers, our in-depth industry knowledge and experience in capturing market trends and catering to ever-charging consumers' needs, preferences and expectations of consumers and our capability in locating the stores to effectively serve our target customers in the past years, we are in a favorable position to compete with the new entrants and other existing market players in the offline-driven non-grocery retail market. However, we cannot assure you that we can replicate our fast growth in recent years.

DATA PRIVACY AND SECURITY

We are committed to protecting consumers' data in our business and operation. We collect customers' data from third party platforms primarily including KKV and THE COLORIST WeChat mini programs where we generally have access to login ID, phone numbers, nicknames, delivery addresses, number of transactions of users of our mini programs. Transaction related information is collected for the purpose of evaluating store performance while personal information is collected for the purpose of verifying and identifying our consumers. Delivery address information is collected for the purpose of locating consumers and assigning nearby warehouses to dispatch our goods. Prior to obtaining their personal data, we explain the terms and conditions to customers and have also gained their prior consent before collecting their data. Consumers can cancel their accounts on our mini programs and we will delete their personal data upon request.

Data Storage Security

We generally store such personal information and data on cloud storage provided by Alibaba Cloud Computing Ltd. ("**Ali Cloud**") which has passed national test for information security and protection and obtained third grade information protection credentials.

Data Protection and Cybersecurity. We have established a cybersecurity department managed by our chief technology officer and made up of three technology engineers. We invested more than RMB1.4 million every year during the Track Record Period primarily including the related human resources expense and security service procurement expense to protect data and cybersecurity. We have also implemented a variety of protocols and procedures, such as regular system checks, password policy, malware detection and precaution policy, data security accident report and management policy, server access logging, network access authentication, as well as user authorization review.

Software and Cyber-Attack Monitoring. We have procured the application firewall, cloud security management system from Ali Cloud, which would inform us when cyber-attack is detected. Furthermore, our cybersecurity department will consistently assess system vulnerabilities and penetration test of system. Besides, servers are protected by our cloud securities center. Additionally, we would engage cybersecurity teams of third-party agencies to conduct penetration test on a regular basis. We did not have any material cyber-attacks during the Track Record Period and up to the Latest Practicable Date.

Data Encryption and Confidentiality. We have procured Secure Sockets Layer (SSL) encryption from Ali Cloud. Important data including personal information and account passcode are encrypted through secure hash algorithm 512 and length of the encryption is 4096 digit. Besides, we have entered into confidentiality agreements with our employees who have access to any aforementioned privacy information. The confidentiality agreements provide that, among others, these employees are legally obligated not to misuse the confidential information while in office, not to surrender confidential information in possession while resigning, and to retain their confidential obligations after they leave office. We also implement a series of measures to ensure our employees' compliance with our data security measures. For instance, we require new hires to receive onboarding training on data security and employees to receive on-the-job training regularly to reinforce relevant data security policies. Employees shall acknowledge to us that they understand and will follow our data security policies.

Data Backup and Disaster Recovery. We have procured data backup service from Ali Cloud. We have established data backup and recovery management policy. Our database managers would be responsible for management of backup system and formulation of recovery strategies. We will adopt specific recovery approaches, such as full backup, differential incremental backup, cumulative incremental backup and log backup, based on category and nature of the data. According to the backup and recovery service agreement entered into by the Ali Cloud and us, the Ali Cloud has also established multi-backup system to prevent data loss from servers crashing. During the Track Record Period, neither did we incur substantial loss caused by system disaster or crashing, nor did we encounter any material breach of confidential data and information or any other consumer privacy-related incidents.

Data Use Security

For internal data use, we have adopted strict measures to govern the retrieval and processing of our customer's personal data and information.

We strictly control our employees' data access. Employees cannot access our internet equipment through external networks. When an employee needs to retrieve specific data from our database, he or she would need to file an application clearly stating the necessity of such retrieval and processing methodology of such data. The cybersecurity department will review and determine whether to permit such application by assessing reasonability and necessity of such application.

For external data use, we did not and will not provide, sell or share personal data and information we collected from our consumers to any third parties.

As advised by our PRC Legal Advisers, our policies and protective measures in respect of data privacy and cybersecurity are in compliance with the applicable PRC data privacy and cybersecurity laws and regulations in all material respects as of the Latest Practicable Date. Our Directors are further of the view that, our policies and protective measures regarding data privacy and cybersecurity are effective to prevent the occurrence of any material data leakage and during the Track Record Period and up to the Latest Practicable Date, we had not encountered any material data leakage.

Furthermore, as advised by our PRC Legal Advisers, we may be subject to the cybersecurity review in the future. However, the Draft Internet Data Security Regulations would not have any immediate material impact on the proposed [**REDACTED**] and business operation, on the following basis: (i) this is a draft regulation for comment and not currently in effect, (ii) this draft does not contain retrospective provisions that would have a material adverse impact on the proposed [**REDACTED**]; and (iii) as of the Latest Practicable Date, we had not been involved in any review or investigation by the CAC with respect to the Draft Internet Data Security Regulations. As confirmed by our Company and our PRC Legal Advisers, we currently do not foresee any material impediments for us to gradually take measures under the guidance of the relevant regulators to prepare ourselves for compliance with the regulations in all material respects once the Draft Internet Data Security Regulations is formally adopted in its current form and the MCSR takes into effect.

See "Regulatory Overview — Laws and Regulations Related to Cybersecurity and Data Protection."

See "Risk Factors — Risks Relating to Our Business and Industry — We are subject to the uncertain, complex and evolving laws, regulations and governmental policies regarding privacy and data protection. Actual or alleged failure to comply with privacy and data protection laws, regulations and governmental policies could damage our reputation, deter current and potential customers from using our products and services and could subject us to significant legal, financial and operational consequences."

RISK MANAGEMENT

Our management has designed and implemented a risk management policy to address various potential risks identified in relation to operations of the stores, including strategic risks, operational risks, financial risks and legal risks. Our risk management policy sets forth procedures to identify, analyze, categorize, mitigate and monitor various risks. Our Board is responsible for overseeing the overall risk management and assessing and updating our risk management policy on an annual basis. Our risk management policy also sets forth the reporting hierarchy of risks identified in our operations.

Parallel Imports

During the Track Record Period, we were aware of parallel imports of products for which we are the sole or exclusive authorized dealers in China. During the Track Record Period, none of the incidents of counterfeit products or parallel imports had any material adverse effect on our Group's operations.

Anti-bribery and Anti-corruption Policy

In order to maintain our reputation and integrity, we have implemented the anti-bribery and corruption policy which requires our employees, distributors, and suppliers to conduct business legally and ethically. Our employee handbook sets forth strict guidelines against engaging in bribery and creating circumstances which may create a conflict of interest between us and our employees.

Pursuant to our anti-bribery and anti-corruption compliance policies, our employees are required to avoid any actual or potential conflicts of interest and receiving any kickback from our suppliers. In selecting quality suppliers, we consider good compliance with anti-bribery and corruption laws and regulations as a key factor. We implement a whistle-blower program under which our employees are encouraged to report instances of briberies directly to our human resources department. We will investigate any reported incidents and personnel, and respond appropriately to rectify any noncompliance with our anti-bribery policies.

INTERNAL CONTROL

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the [**REDACTED**], we have adopted and will continue to adopt the following risk management measures:

- establish an audit committee to review and supervise our financial reporting process and internal control system. Our audit committee consists of three members, namely Mr. Ying Kejing (應可靖), Ms. Shi Meng (時朦) and Mr. Yu Jianfeng (余劍峰). For the qualifications and experience of these 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; and

- attend training session by 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.

We have also engaged an internal control consultant to review the effectiveness of our internal controls associated with our major business processes, identify deficiencies and areas for improvement, provide recommendations and review the implementation status of these remedial actions. No material deficiencies were identified during the review.

We have taken measures to further improve internal controls in relation to our operations. We have implemented various policies and procedures to ensure effective management in our operation, production, financial reporting and recording, and compliance with applicable laws and regulations. We have adopted the recommendations made by the internal control consultant, who has also completed the follow-up review on our internal control system with regard to those actions taken by us.

HUMAN RESOURCES

As of October 31, 2023, we had a total number of 5,702 full-time employees, among which 1,033 employees work in our headquarters, and the remaining 4,669 employees are in-store staff stationed at our self-owned stores. All of our employees are located in China.

The following table provides a breakdown of our full-time employees by function of our Group as of October 31, 2023.

Department	Number of Employees
Headquarters	
Office of executive	81
Human resource center	55
Information technology center	118
Overseas operation center	135
Supply chain center	114
Development center	33
Finance center	81
KK/KKV store development and operation	225
TC/THE COLORIST store development and operation	109
X11 store development and operation	82
Subtotal	**1,033**
In-store staff at our self-owned stores	**4,669**
Total	**5,702**

Relationship with Our Employees

Our success depends on our ability to attract, motivate, train and retain qualified personnel. We believe we offer our employees competitive compensation packages and an environment that encourages self-development and, as a result, have generally been able to attract and retain qualified personnel and maintain a stable core management team.

We value our employees and we are committed to growing with our own employees. In addition, we place strong emphasis on providing training to our employees in order to enhance their professional skills, understanding of our industry and work place safety standards, and appreciation of our value, especially our satisfying customer services. We design and offer different training programs for employees at various positions periodically.

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.

As required by regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including basic pension, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing fund. We are required under PRC law to make contributions 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.

Social Insurance and Housing Provident Funds

During the Track Record Period, some of our PRC subsidiaries did not open social insurance account or housing provident fund account as prescribed by the relevant laws and regulations. Some of our PRC subsidiaries entrusted third parties to pay for the social insurance and housing provident fund for our PRC subsidiaries' employees, on behalf of these subsidiaries, primarily because (i) the relevant employees work in a number of cities across the nation where we do not maintain a subsidiary or branch office and (ii) the relevant subsidiaries were not able to open local deposit accounts for social insurance fund and housing provident fund for certain employees who are stationed outside of cities where the relevant subsidiaries are located. During the Track Record Period, the third parties we engaged to pay for social insurance and housing provident fund primarily included third party human resources agencies. During the Track Record Period, all the contributions made through third parties were based on the same standards of contribution ratio and bases under the relevant PRC laws. None of the third parties we engaged to pay for social insurance and housing provident fund had any other pre-existing or present relationships (including, without limitation, family, business, employment, financing, trust, shareholding or otherwise) with our Group, their shareholders, directors or senior management, or any of their respective associates.

Both we and the entrusted third parties failed to make full social insurance and housing provident fund contributions for some of our employees primarily because (i) our labor force is highly mobile; (ii) 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; (iii) inconsistent implementation of the PRC laws and regulations by the local authorities, and (iv) in practice, local authorities generally permit the PRC subsidiaries to pay for the social insurance and housing provident fund based on a lower salary level than the actual salary of an employee.

Pursuant to the relevant PRC laws and regulations, where the PRC subsidiaries fail to register with social insurance agencies and housing provident fund management centers and open accounts, such PRC subsidiaries may be imposed a fine of not less than one time but not more than three times the amount of social insurance premiums payable for failing to open a social insurance account within the prescribed time, and may be imposed a fine of not less than RMB10,000 but not more than RMB50,000 for failing to open a housing provident fund account within prescribed time, respectively.

Pursuant to the relevant PRC laws and regulations, we may be ordered by the relevant PRC authorities to pay the outstanding social insurance contributions within a prescribed time limit, and 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, and if we fail to comply when ordered, the relevant authorities may impose a maximum fine or penalty equivalent to three times the outstanding amounts. With respect to housing provident funds, the relevant authorities may order us to pay the outstanding amounts within the prescribed time period, and they may apply to a competent court for enforcement of the outstanding amounts if we fail to do so.

During the Track Record Period and 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 housing provident fund contributions either directly made by us or through the third parties we entrusted, nor had we received any order to settle the deficit amount. Moreover, during the Track Record Period and 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.

As of the Latest Practicable Date, we paid social insurance and housing provident fund for substantially all of our employees.

In 2020, 2021 and 2022 and the ten months ended October 31, 2023, we made provisions of RMB7.9 million, RMB29.9 million, RMB12.7 million and RMB5.7 million for the shortfall of the social insurance and housing provident fund contribution, respectively.

To prevent the recurrence of such shortfall, we have required all of our employees to fully participate in contributing to such funds. We undertake to make timely payments for such shortfall and overdue charges if and when requested by the competent government authorities. As advised by our PRC Legal Advisers, once we make timely payments for such shortfall and overdue charges if requested by the competent government authorities, the risk of being imposed material penalties by the competent government authorities on us is low.

Our Directors believe that the above non-compliance would not have a material adverse effect on our business, financial condition 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; and (iii) during the Track Record Period and 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.

We have also taken the following rectification measures to prevent future occurrences of such non-compliances:

- We have enhanced our human resources management measures, which explicitly require social insurance and housing provident fund contributions to be made in full in accordance with applicable local requirements;

- We are in the process of communicating with our employees with a view to seeking their understanding and cooperation in complying with the applicable payment base, which also requires additional contributions from our employees;

- We have designated our human resources department to review and monitor the reporting and contributions of social insurance and housing provident fund on a monthly basis;

- We will keep abreast of latest developments in PRC laws and regulations in relation to social insurance and housing provident funds; and

- We will consult our PRC legal counsel on a regular basis for advice on the relevant PRC laws and regulations to keep us abreast of the relevant regulatory developments.

PROPERTIES

As of the Latest Practicable Date, we did not own any property.

Our Leased Properties

As of the Latest Practicable Date, we had leased 637 properties with the total GFA of 577,394.6 sq.m. in China from Independent Third Parties. Our leased properties in China serve as our offices, warehouses and self-owned retail stores.

As of the same date, the total GFA of our self-owned retail stores in China was approximately 520,060.1 sq.m.. The size of our self-owned retail store typically ranges from approximately 80 sq.m. to 5,500 sq.m.. The lease agreements typically have a term of three to eight years.

We also enter into legally binding leasing agreements for warehouses with the lessors. The principal terms of our leasing agreements for warehouse are set out as below:

- *Rental fees*. We generally pay a fixed monthly rent to the lessors for each warehouse we rent.

- *Uses*. The uses of the warehouses are generally limited to warehousing, logistics, and delivery.

- *Term.* The term of our lease agreements generally ranges from three years to eight years.

- *Termination*. The lease agreements may be terminated by either party if the other party fails to perform certain obligations under the lease agreement.

- *Deposit*. Under certain lease agreements, we are required to pay a deposit within a period of time after the lease agreement is signed, which is refundable upon termination or expiration of the agreements.

- *Sublease.* We are required to obtain the lessor's written consent to sublease the lease to any third-party.

- *Renovation and construction.* In case that we intend to renovate or construct any part of the leased warehouse, we are required to obtain the lessor's written consent as well as relevant government authorizations.

During the Track Record Period, we have successfully renewed all expiring leases, except for those leased properties that we believe were no longer needed for our business operations and therefore we decided not to renew. Based on our communications with landlords, our Directors confirm that there is no material impediment for our Company to renew such lease agreements.

Lack of Valid Ownership Certificate or Consent and Construction Permit for One Leased Property in Dongguan City

With respect to one of the leased properties located in Dongguan City with a GFA of 7,500 sq.m., owned by the collective economic organization and primarily used as our offices, there is no guarantee that the lessor has obtained the valid ownership certificate for the aforesaid leased property or relevant consent from the collective economic organization to lease the property. In accordance with the PRC Land Administration Law (《中華人民共和國土地管理法》), in case that land utilization master plan and urban and rural planning categorizes the collectively owned land as land for industrial, commercial and other business operation purposes which is legally registered as collectively operational construction land, the land owner can authorize land use right to individuals through transfer or lease based on written agreements, setting forth land site, size and use, construction period, use period, planning conditions as well as other rights and duties. The aforesaid transfer and lease shall be subject to the consent of more than two-thirds of the members in the collective economic organization's villagers' assembly or the villagers' representatives. Our PRC Legal Advisers are of the view that the lease agreements may not be valid, and there are risks that we may not be able to continue to use such properties, should a third party raise objections. Our Directors confirmed that the above-mentioned ownership defects would not materially and adversely affect our business operations because if we have to terminate the leases or relocate from such leased property with ownership defects, we are able to locate qualified alternative premises within a short period of time under comparable terms without incurring substantial additional costs.

In addition, we did not obtain the construction planning permit and construction permit for the decoration and construction of the aforesaid leased property as of the Latest Practicable Date. In accordance with 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. As advised by our PRC Legal Advisers, we may be subject to (i) an order of rectification or suspension of the usage of the leased property; and (ii) a fine up to RMB1,440,000. 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.

Failure to Complete Lease Registration

As of the Latest Practicable Date, we had not completed lease registration for the 618 leased properties in China. Pursuant to the applicable PRC laws and regulations, property lease contracts must be registered with the competent PRC government authorities. The failure to complete the administrative registrations is 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. Considering the fact that a substantial portion of our lessor are owners of large shopping malls and sizeable commercial real estate developers, the Group, as the lessee, was less advantaged in the bargaining power that the lessors in particular in its early stage and ramp-up stage of store network expansion. During the Track Record Period, the relevant lessors failed to perform necessary procedures for lease registration or failed to provide sufficient documents for the lease registrations, such as property ownership certificates or other proof of authorizations to lease the properties to us.

We have taken the following rectification measures to prevent future occurrences of such non-compliances:

- We have designated a dedicated team to work on the lease registration by proactively communicating with the lessors in order to obtain their cooperation and collect the application documents for the relevant lease registration;

- We have submitted the application documents for lease registration where those documents are complete; and

- We have enhanced the internal control measures and procedures to prevent re-occurrence of such non-compliance incidents, including but not limited to, stipulation of the lessor's obligation to complete the registration and lessor's liability for any such breach in the lease agreement and payment of indemnity to us if any loss incurred because of non-registration.

Our PRC Legal Advisers have advised us that, in accordance to PRC Urban Real Estate Administration Law (《中華人民共和國城市房地產管理法》), and the Administrative Measures for Commodity House Leasing (《商品房屋租賃管理辦法》), the lack of registration of the lease contracts will not in itself invalidate our relevant 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 and the aggregate maximum potential penalty for the non-registration of the foregoing 618 leased properties is approximately RMB6.2 million as of the Latest Practicable Date. Our Directors confirmed that the above-mentioned ownership defects would not materially and adversely affect our business operations. As of the Latest Practicable Date, we have not received any administrative penalties in this regard. In addition, the risk of governmental authorities imposing a material penalty on us with respect to these leased properties is low if the lease registration can be completed in accordance with relevant laws and regulations within a reasonable time from the date of application or the prescribed time limit ordered by the competent governmental authorities.

Leased Properties with Defective Titles

As of the Latest Practicable Date, there were 258 properties we leased with defective titles, primarily including leased properties used for self-owned stores, our offices and warehouses, among which, (i) 51 leased properties with an aggregate GFA of approximately 70,685.1 sq.m. failed to obtain relevant ownership certificates or land use right certificates from the lessors, and 13 leased properties with an aggregate GFA of approximately 10,523.7 sq.m. failed to obtain the relevant authorization documents from the property owners to authorize relevant lessors to lease or sublease relevant properties; (ii) except for those properties in (i), 177 leased properties with an aggregate GFA of approximately 157,472.1 sq.m. were under mortgage; and (iii) the remaining 17 leased properties with an aggregate GFA of approximately 14,143.2 sq.m. existed inconsistencies between actual use and planned use specified in the property ownership certificate. As of the same date, the franchise stores leased 66 properties with the total GFA of approximately 46,926.8 sq.m., among which there were 40 properties with defective titles with an aggregate GFA of approximately 28,727.5 sq.m.

In accordance with the PRC Urban Real Estate Management Law (《中華人民共和國城市房地產管理法》) and other relevant laws, regulations and judicial interpretations, if the lessor does not have the ownership of the property and/or land use rights, or without the authorization or consent of the owner of the house and/or land use rights, the lessor has no right to lease such properties. Our PRC Legal Advisers are of the view that these lease agreements may not be valid, and there are risks that we may not be able to continue to use such properties, should a third party raise objections. With respect to those leased properties under mortgage, if the mortgager fails to repay obligations to the mortgagee when due and the mortgagee chooses to enforce its relevant mortgage rights, we may not be able to continue to use such leased properties. With respect to those leased properties used for purposes which differ from specified use in the property ownership certificate, if the landlords of the properties receive any rectification order from relevant competent authorities, we may not be able to continue to use such leased properties.

Our Directors confirmed that the above-mentioned ownership defects would not materially and adversely affect our business operations or financial conditions because if we have to terminate the leases or relocate from such leased properties with ownership defects, we are able to locate qualified alternative premises within a short period of time under comparable terms without incurring substantial additional costs. Since a substantial portion of our lessors are owners of large shopping malls and sizeable commercial real estate developers, we believe the risk that we are required to vacate and relocate from these premises is remote. In addition, given that these properties are geographically dispersed across China under administration of different regulatory bodies, we believe it is unlikely that we would be at the same time subject to claims of rights from various third parties or required by the regulatory bodies to relocate a large number of related retail stores at the same time. We have also enhanced our internal control measures and procedures to prevent the leasing of properties with title defects. Furthermore, it is the lessors' responsibilities to obtain the title certificates to enter into the leases, and as a tenant, we will not be subject to any administrative punishment or penalties in this regard.

Since the lessors generally have more control over the title of the properties than the lessees, we plan to continue to maintain regular communication with the lessors regarding their progress of remedying the defects, including among others, procuring the lessors, to the extent practicable, to provide, collect and obtain the ownership certificate from the owners of the lease properties. We have also established guidance and strengthened our internal control procedures whereby valid title certificates and lessors' cooperation to register the lease agreements must be obtained before we enter into any new leases. In addition, we will, to the extent practicable, put in place additional lease arrangements in favor of us during the negotiation of lease terms going forward, including among others, requirement for the lessor to compensate us for the losses and cost caused by our inability to use the defective properties.

The Directors are of the view, and our PRC Legal Advisers concur that the above-mentioned title defects will not have a material impact on our business and results of operations for the following reasons: (i) during the Track Record Period and up to the Latest Practicable Date, to the best of the Directors' knowledge, our leases involving such defective leased properties had not been challenged by any third parties, (ii) having considered that such defective leased properties are scattered throughout the PRC and are subject to different local government authorities, we consider it unlikely that we would simultaneously face claims from various third parties or be required to relocate by government authorities in respect of the defective leased properties, (iii) we can find alternative properties in the event that we were required to relocate, (iv) we have strengthened our internal control measures and procedures to prevent new leasing properties with title defects in the future, and (v) our controlling shareholders have agreed to indemnify our Group for any claims, fines and other liabilities arising from leased properties with defective titles.

Fire Safety

As of the Latest Practicable Date, our 33 self-owned stores had not completed the fire safety filings required for obtaining the fire safety inspection permit which represents 4.9% of our total number of self-owned stores. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, the revenue contribution from these self-owned stores was RMB76.6 million, RMB205.3 million, RMB187.8 million and RMB256.1 million, representing 4.7%, 5.8%, 5.3% and 5.4% of our total revenue, respectively.

As of the Latest Practicable Date, 14 franchise stores, comprising (i) 10 franchise stores without investment, (ii) two transitional stores and (iii) two joint venture stores, had not completed the fire safety filings. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, the revenue contribution from these franchise stores was RMB47.6 million, RMB59.4 million, RMB44.6 million and RMB55.2 million, representing 2.9%, 1.7%, 1.3% and 1.2% of our total revenue, respectively.

Latest Status and Potential Legal Consequences

Self-owned Stores

As of the Latest Practicable Date, we had submitted the fire safety filings for all of the above 33 self-owned stores, among which:

(i) nine stores were awaiting for the local authorities' further instruction on more documents needed if any, on-site fire safety inspection and appraisal; and

(ii) 24 stores may not be able to complete the fire safety filings, primarily due to one or more practical difficulties, generally beyond our control, including:

- The owners of certain leased properties have not completed fire safety filings for the entire properties within which our leased premises are located, which causes a delay or failure in our completion of the fire safety filings;

- The owners of certain leased properties fail to adjust its overall construction planning and decoration for the entire properties pursuant to the local authorities' requirement;

- The lessors have defects of title in the leased properties:

  o The lessors are not able to provide the property ownership certificates for certain leased properties, which are required by the relevant regulatory authorities for approval of the fire safety inspection permit; and

  o The lessors of certain leased properties within which our leased premises are located utilize the entire properties in ways in contrast with the planned use specified in the property ownership certificate.

We have and will continue exert best efforts to negotiate with such lessors to complete the fire safety filings for the entire properties, to adjust the overall construction and decoration for the entire properties pursuant to the local authorities' requirements, or to rectify the defects of title in the leased properties. However, we cannot assure you that we will be able to do so in an efficient, cost-effective and timely manner, or at all.

Regarding the above 33 self-owned stores which had not completed the fire safety filings, we have the following plans as a rectification measure:

- five stores have suspended their operations since December 2023 until we obtain the fire safety inspection permit;

- We expect that three stores will obtain the fire safety inspection permit within the next six months and another five stores will obtain such permit within one year. If we are not able to obtain such permit within the above expected timeframe, these stores will suspend their operations until we obtain such permit; and

- As for the remaining 20 stores, we have generally encountered the above practical difficulties or do not have a clear expectation when we can obtain such permit. Regarding these 20 stores, if we are not able to obtain such permit within one year after the [**REDACTED**], these stores will suspend their operations until we obtain such permit.

As advised by our PRC Legal Advisers, there is no substantial legal impediment for us to obtain the fire safety inspection permit, provided that we submit all the requisite documents to the relevant regulatory authorities and pass the on-site inspection in accordance with the relevant PRC laws, regulations, government policies and the specific requirements of the relevant regulatory authorities.

Our PRC Legal Advisers also advise that, for each of these self-owned stores that fail to complete the fire safety filings and obtain fire safety inspection permit, we may be required to suspend our operation and subject to a fine of up to RMB300,000. As advised by our PRC Legal Advisers, the maximum fine that may be imposed by relevant competent authorities is RMB9.9 million for these self-owned stores. This maximum fine represents only 0.2% of our total revenue in the ten months ended October 31, 2023.

Franchise Stores

As of the Latest Practicable Date, the relevant franchisees and joint ventures which aggregately operated the above 14 franchise stores planned to submit the fire safety filings to the local authorities within the next six months. Pursuant to the Fire Prevention Law of the PRC, the operators of the public facility shall apply to the local fire safety governmental authority and obtain the fire safety inspection permit before commencement of the business operation. Each of the relevant franchisees (in case of franchise stores without investment and transitional stores) and joint ventures (in case of joint venture stores) is the owner and operator of the franchise stores and should be responsible to submit fire safety filings to the local governmental authority pursuant to the franchise agreements. See "— Self-owned Stores and Franchise Stores — Key Terms of Franchising Arrangement." The above 14 franchise stores failed to obtain fire safety inspection permit for substantially the same reasons above as our self-owned stores.

We have and will continue to assist with the relevant franchisees and joint ventures to negotiate with the relevant lessors to complete the fire safety filings for the entire properties, to adjust the overall construction and decoration for the entire properties pursuant to the local authorities' requirements, or to rectify the defects of title in the leased properties. However, we cannot assure you that the franchisees and joint ventures will be able to do so in efficient, cost-effective and timely manner, or at all. If they cannot complete necessary fire safety filings for all these franchise stores, both the relevant franchisees and we expect that these stores will be closed or relocated after the expiration of their lease agreements, all between 2023 and 2031.

As advised by our PRC Legal Advisers, penalty would not be imposed on us resulting from the franchise stores' failure to obtain fire safety inspection permit because the franchisees and joint ventures as the business operators shall bear related responsibilities of failure to obtain such permit pursuant to the relevant PRC laws.

Rectifications

In order to ensure that these self-owned stores and franchise stores operate safely, we have engaged Shenzhen Anzhi Electrical Fire Fighting Safety Inspection Co., Ltd. (深圳市安智電氣消防安全檢測有限公司) as the fire safety consultant (the "**Fire Safety Consultant**") to conduct fire safety inspection on each of the self-owned stores and the franchise stores which had not completed the fire safety filings as of the Latest Practicable Date. Incorporated in 2013, our Fire Safety Consultant primarily offers fire safety inspection, evaluation and consulting services.

Our Fire Safety Consultant reviewed and inspected the following aspects of our operations through on-site inspection, surveys and document review: (i) the compliance of our fire protection system with laws and regulations and industry standards, (ii) the adequacy of the fire safety equipment and system and emergency evacuation plan of premises where these stores are located, and (iii) the compliance with applicable building fire protection and fire safety standards of the premises where these stores are located.

Our Fire Safety Consultant concluded that:

- All of these self-owned stores and franchise stores have complied with the relevant fire safety regulation and standards, and the relevant requirements for the completion of fire safety inspections in the above aspects;

- No material fire accident has ever occurred in these stores and we have never been subjected to any material administrative penalty or public notice of violations due to any fire safety issues with respect to these stores;

- These stores do not have major fire safety issues, and these stores have not yet completed the relevant procedures for the time being primarily due to defects in the leased properties or other reasons unrelated to fire safety issues of these stores; and

- there is no material impediment for these stores to complete the fire safety filings and obtain the fire safety inspection permit, upon submission of applications and all the requisite documents to the relevant governmental authorities.

Furthermore, in both self-owned stores and franchise stores, we have taken and will continue to enhance our internal control measures and procedures to manage associated risks and prevent re-occurrence of such non-compliance incidents, which include:

- ***Fire safety plans and procedures***. We have devised a fire safety plan with guidance on the use of fire resistant building and decoration materials and electrical appliances, standard operation procedures in case of fire alarm and proper evacuation plans including proper evacuation route indication signs and emergency exits;

- ***Training***. We conduct extensive training for the in-store staff, including periodic training on (i) the general fire safety awareness and knowledge, (ii) the fire safety rules and regulations, and (iii) proper use of fire safety equipment and emergency evacuation plans. We also conduct periodic fire drills at store premises to familiarize the in-store staff with our evacuation plan;

- ***Personnel***. We have designated personnel who is responsible for conducting periodic review of fire safety work in the stores and engaged our Fire Safety Consultant to provide relevant advice to our safety measures;

- ***Equipment***. We have installed the necessary fire safety equipment as required by applicable PRC laws and regulations, including fire extinguishers, smoke detectors and automatic water spray. We regularly assess the need to upgrade our equipment and facilities to achieve better ventilation, humidity, fire and heat protection; and

- ***Insurance***. We have obtained the public liability insurance to cover any potential damage, injury or death suffered by any third party (including our customers) as a result of the accidents happened in the course of our business operation. In the event that any customer suffers damage, injury or death, as applicable, in relation to fire safety or other accidents, we expect that the relevant insurance policies will cover our liability towards these customers.

To obtain the public liability insurance, we generally enter into insurance agreements with the insurer. Pursuant to these agreements, the public liability insurance will cover our potential compensation obligations for the above damage, injury or death suffered by any third party as a result of the accidents happened in the course of our business operation. During the Track Record Period and as of the Latest Practicable Date, we complied with these agreements in all material respects.

As advised by our PRC Legal Advisers, failure to obtain the fire safety inspection permit would not invalidate the relevant insurance policy stipulated in these agreements. The fire safety inspection permit is an administrative procedure requirement under the PRC laws. None of these agreements contain any provision to the effect that the insurer would not be liable if we fail to comply with the fire safety administrative procedure requirement. Notwithstanding the above, pursuant to these agreements, we shall comply with the fire safety laws and regulations, adopt reasonable measures to reduce the occurrence of accidents, and ensure the safety of the stores. The insurer has right to inspect the store sites and can increase the premium or terminate the agreements if the insurer determines that we fail to fulfill such obligations to ensure the fire safety of the stores. In case of a fire accident, the insurer will determine if we can claim and recover losses from the issuer based on the accident report from the competent authority and the actual facts.

During the Track Record Period and as of the Latest Practicable Date, we believe that we had fulfilled such obligations to ensure the fire safety in the stores in all material respects, and the failure to obtain the fire safety inspection permit would not lead to the breach of our obligations, primarily because:

- as confirmed by our Fire Safety Consultant, all these self-owned stores and franchise stores which have not completed the fire safety filings have complied with the relevant fire safety regulations and standards, and requirements for completing the fire safety inspections;

- no material fire accident had ever occurred in the stores and we had not been subject to any material administrative penalty;

- the insurer had not increased premium nor terminated any agreement; and

- the failure to obtain the fire safety inspection permit is only an administrative procedure defect, which is primarily due to defects in the leased properties or other reason unrelated to the fire safety conditions of the stores.

As advised by our PRC Legal Advisers, in case of a fire incident in a store, we are able to claim and recover such losses from the insurer, pursuant to these agreement, primarily because:

- obtaining the fire safety inspection permit is not a condition precedent for the conclusion of these agreements;

- neither these agreements nor the PRC laws stipulate that the insurer can be exempted from fulfilling its compensation obligation to us if the store fails to obtain the fire safety inspection permit;

- our failure to obtain the fire safety inspection permit is an administrative procedure defect which would not lead to the breach of our obligations to ensure the safety of the stores pursuant to these agreements; and

- pursuant to the relevant PRC laws, failure to obtain the fire safety inspection permit would not render a civil legal act such as insurance policy invalid.

We have fully implemented the above enhanced internal control measures and will strictly implement these measures in the process of store network expansion to avoid recurrence of related non-compliance in the future. In particular, for the site selection and leasing of new stores, we and the relevant franchisee (in case of franchise stores) will inspect the fire safety of the leased property and evaluate the necessary conditions for handling pre-opening fire safety procedures. We will clearly require the lessor, in the newly signed lease agreement, to provide assistance in obtaining the fire safety filing documents of the leased property, and to ensure that the leased property possesses the necessary conditions for handling pre-opening fire safety procedures. Since January 2024, we require all the newly opened stores to obtain fire safety inspection permit before they commence their business operations.

Our Directors are of the view that the above rectification and enhanced internal control measures are adequate, effective and sufficient to prevent the recurrence of the non-compliance incidents going forward, considering (i) the strictly implemented internal control measures, (ii) the Fire Safety Consultant's view that all of these self-owned stores and franchise stores which have not completed the fire safety filings have complied with the relevant fire safety regulation and standards, and the relevant requirements for the completion of fire safety inspections, and (iii) our Directors' undertaking that we will timely complete the fire safety filings as required by the applicable PRC laws and regulations for each new store to be opened going forward.

After considering the above factors, our Directors are of the view that this non-compliance would not have a material and adverse effect on our business, results of operation or financial conditions, primarily because:

- The maximum potential penalty of RMB9.9 million represents merely 0.2% of our revenue in the ten months ended October 31, 2023;

- during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material administrative penalties;

- the non-compliance did not and will not affect the safety of our guests and employees given that the Fire Safety Consultant has advised us that all of these self-owned stores and franchise stores which have not completed the fire safety filings have complied with the relevant fire safety regulation and standards, and the relevant requirements for the completion of fire safety inspections;

- given that these stores are geographically dispersed and managed by different authorities, we are unlikely to be required by the competent authorities to close or relocate a large number of stores at the same time;

- we have sufficient alternative stores locations and believe that we will be able to relocate a number of stores to new locations if we are required to do so;

- having consulted with our PRC Legal Advisers, notwithstanding the above practical difficulties, there is no substantial legal impediment for these stores to obtain the fire safety inspection permit, provided that we (in case of self-owned stores), the franchisees (in case of franchise stores without investment and transitional stores) and joint ventures (in case of joint venture stores) submit all the requisite documents to the relevant governmental authorities and complete the onsite inspection pursuant to the relevant PRC laws, regulations, government policies and specific requirements of the relevant governmental authorities;

- we have enhanced our internal control measures and procedures as recommended by our Fire Safety Consultant;

- we are actively working on advancing our fire safety filings with the relevant regulatory authorities; and

- in case that we are ordered by the relevant regulatory authorities to rectify the relevant fire safety non-compliance, we undertake to fully comply with such order.

Our PRC Legal Advisers are of the view that the possibility of our Group, our Directors, our senior management, the directors and management of the relevant subsidiaries, the stores or employees (collectively, the "**Relevant Group of Persons**") being held criminal liability regarding the obligations of fire safety management under the relevant PRC laws is **low**, primarily because:

- ***No criminal acts nor serious damages exist pursuant to the PRC Criminal Law***. The Fire Safety Consultant is of the view that all our self-owned stores and franchise stores which have not completed the fire safety filings have complied with the relevant fire safety regulations and standards, and the relevant requirements for the completion of fire safety inspections. During the Track Record Period and as of the Latest Practicable Date, no material fire accidents had ever occurred in the stores which result from the Relevant Group of Persons' fault in fire safety management, and we had not been subject to any material administrative penalties. Therefore, the Relevant Group of Persons have not been engaged in any criminal act and have not caused any fire accident or damage accordingly.

- ***No criminal intention nor gross negligence exists pursuant to the PRC Criminal Law***. As advised by our PRC Legal Advisers, lack of fire safety inspection permit itself would not automatically lead to the relevant governmental authorities to determine that the Relevant Group of Persons have acted with intention or gross negligence in a fire incident, considering that:

  o we have submitted fire safety filings for all of the remaining 33 self-owned stores and have been assisting with all the remaining 14 franchise stores to submit and complete the fire safety filings; and

  o the Relevant Group of Persons have been cautious in observing the obligations of fire safety management and have been actively cooperating with the local authorities to establish fire safety measures or timely conduct rectification measures.

INTELLECTUAL PROPERTIES

Intellectual property rights owned by our Group

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. As of the Latest Practicable Date, we had registered 659 trademarks, 59 patents and 67 copyrights in China.

Intellectual property rights licensed by Third Party Brand Suppliers to our Group

Under the distributorship agreements made with our Third Party Brand Suppliers, we are generally licensed to use the brand names or trademarks of the Third Party Brand Suppliers or in respect of the relevant merchandise in some of our sales and marketing activities.

As of the Latest Practicable Date, there were no disputes or infringements in connection with our intellectual property rights pending or threatened against our Group which could have a material adverse effect on our operations or financial performance.

INSURANCE

As of the Latest Practicable Date, we maintained various insurance policies to safeguard against risks and unexpected events. We have purchased property insurance covering our inventory inside warehouses and fixed assets such as equipment, furniture and office facilities. We also provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees. We maintain directors' and officers' liability insurance for our directors and officers. We do not maintain business interruption insurance, nor do we maintain product liability insurance or key-man life insurance. We do not have insurance related to the COVID-19 pandemic either. We consider that the coverage from the insurance policies we maintain is adequate for our present operations and is in line with the industry norm. See "Risk Factors — Risks Relating to Our Business and Industry — Our insurance policies may not provide adequate coverage for all claims associated with our business operations." During the Track Record Period and up to the Latest Practicable Date, we have not made, nor been the subject of, any material insurance claim.

LEGAL PROCEEDINGS

From time to time, we may be subject to legal proceedings, investigations and claims arising in the ordinary course of our business. As of the Latest Practicable Date, we were not involved in any litigation, arbitration or administrative proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material and adverse effect on our business, financial condition or results of operations.

Disputes regarding the 2016 Letter of Intent

On December 25, 2016, Guangdong Kuaike Electronic, a subsidiary of our Company, and one prior franchisee entered into a letter of intent (the "**2016 Letter of Intent**") to grant the franchisee share option of a potential [**REDACTED**] entity with **the value equal to RMB1.0 million**, subject to the conditions that (i) parties shall enter into a separate agreement regarding such share option arrangement to specify detailed terms and conditions, and (ii) Guangdong Kuaike Electronic has the sole and final right to determine terms and conditions of granting such share option.

During the Track Record Period, we were involved in the lawsuits brought by the prior franchisee who claims for (i) shareholding of Guangdong Kuaike Electronic and the conversion into certain shares of our Company, or (ii) damages equal to the value of certain shareholding in our Company or Guangdong Kuaike Electronic.

On August 31, 2022, the People's Court of Shenzhen Qianhai Cooperation Zone (the "**Qianhai Court**") entered into its decision (the "**Qianhai Court Ruling**") which clearly states that:

(i) the 2016 Letter of Intent is a pre-contract instead of a formal share option agreement with specified content;

(ii) the 2016 Letter of Intent is legally binding and was breached;

(iii) the prior franchisee's claim on fulfillment of pre-contractual obligation (namely execution of a formal share option agreement) is not cash based in nature and we have not granted nor will grant any share options to the franchisee. As such, enforced performance cannot be practically implemented on granting option shares;

(iv) the court does not support the prior franchisee's claims regarding the shareholding in Guangdong Kuaike Electronic and the conversion into shares of our Company because such claims do not have factual and legal basis; and

(v) The prior franchisee may claim for other forms of compensation for breach of the 2016 Letter of Intent.

As advised by Guangdong Guanghe (Dongguan) Law Firm (the "**Litigation Counsel**"), pursuant to Articles 158 and 171 of the PRC Civil Procedure Law and Article 247 of the Interpretation of the Supreme People's Court on Application of the PRC Civil Procedure Law, the Qianhai Court Ruling is final and binding on other courts and other subsequent proceedings, and the prior franchisee cannot make the same claim in the court to obtain share option or shareholding of Guangdong Kuaike Electronic and our Company.

In June 2023, the same franchisee filed a new lawsuit against us in Shenzhen Intermediate People's Court (the "**Shenzhen Intermediate Court**"). The franchisee claims for the damages equal to the value of certain shares in our Company. As of the Latest Practicable Date, we had received notice of response from the Shenzhen Intermediate Court and planned to submit our responses within the statutory timeframe.

Our Directors are of the view that, as advised by the Litigation Counsel, this ongoing lawsuit will not have any material adverse impacts on our Group's business, financial condition or results of operations, primarily because:

- as advised by the Litigation Counsel, the likelihood for us being ordered by the court to deliver shares of Guangdong Kuaike Electronic or our Company is remote based on the Qianhai Court Ruling which is final and binding on other courts and subsequent proceedings;

- as advised by the Litigation Counsel, our maximum potential obligation regarding the ongoing lawsuit should be limited to (i) RMB1.0 million as the prior franchisee's investment in one franchise store which was closed in 2017, and (ii) statutory interest on the RMB1.0 million that represents the prior franchisee's actual loss pursuant to Article 584 of the PRC Civil Code;

- as advised by the Litigation Counsel, the prior franchisee shall not be entitled to any expected benefit pursuant to Article 584 of the PRC Civil Code, including damages equal to the value of certain shareholding in our Company or Guangdong Kuaike Electronic, since the franchisee's claims are neither definite nor foreseeable on the following basis:

    ◦ the performance of the 2016 Letter of Intent, a pre-contract, is to reach a formal share option agreement which will specify the parties' obligation and rights.

    ◦ no formal share option agreement was reached because the prior franchisee made excessive and unreasonable claims requesting a value far more than RMB1.0 million which is specifically set out in the 2016 Letter of Intent.

    ◦ the 2016 Letter of Intent states that the value of the share option expected to be offered was RMB1.0 million.

  - ◦ The Qianhai Court Ruling does not support the franchisee's claims regarding the shareholding in Guangdong Kuaike Electronic and the conversion into shares of our Company because such claims do not have factual and legal basis.

- The Single Largest Shareholders Group agrees that should any dispute raised from the 2016 Letter of Intent, it will indemnify our Company for any liabilities or costs therein.

See "Risk Factors – Risks Relating to Our Business and Industry – We are subject to risks associated with franchise business."

COMPLIANCE WITH LAWS AND REGULATIONS

Except for certain non-compliance incidents with respect to (i) social insurance and housing provident fund, (ii) lack of valid ownership certificate or consent and construction permit, failure to complete lease registration and leased property with defective titles, (iii) failure to obtain fire safety inspection permit, and (iv) historical failure to meet Two Stores and One Year Requirement, we did not commit any non-compliance of laws and regulations which individually or in the aggregate, in the opinion of our Directors, would have a material and adverse effect on our business, financial conditions or results of operations. See "Risk Factors — Risks Relating to Our Business and Industry — 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."

As advised by our PRC Legal Advisers, except for the non-compliance incidents as disclosed, during the Track Record Period and up to the Latest Practicable Date, we did not commit any non-compliance which individually or in the aggregate would create a material adverse impact on the proposed [**REDACTED**]. See "— Human Resources — Social Insurance and Housing Provident Funds" and "— Properties."

Having considered that (i) we have not been subject to any material fines relating to the non-compliances, (ii) we have implemented effective rectification measures, and (iii) the non-compliances were unintentional and do not raise concerns as to the integrity of Directors, our Directors are of the view that the above non-compliances would not affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules or the Company's suitability for [**REDACTED**] under Rule 8.04 of the Listing Rules.

We will renew existing licenses and permits timely upon their expiration to ensure that our business operation complies with relevant applicable laws and regulations. Based on the advice of our PRC Legal Advisers, we do not foresee legal impediments in the renewal of our 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 China. See "Regulatory Overview."

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We have been, and will continue to be, highly committed to promoting corporate social responsibility and sustainable development and integrating it into all major aspects of our business operations. We focus on areas such as economic responsibility, employee responsibility, customer responsibility, supplier responsibility, environment responsibility and public responsibility. To comply with the Stock Exchange's reporting requirements on environmental, social and governance (**"ESG"**), we have adopted a comprehensive ESG policy in accordance with the standards of Appendix 27 to the Listing Rules ("**ESG Policy**"), which sets forth, among others, (i) the appropriate risk governance on ESG matters, including climate-related risks and opportunities; (ii) identification of key stakeholders and the communication channels to engage with them; (iii) ESG governing structure, (iv) ESG strategy formation procedures; (v) ESG risk management and monitoring; and (vi) the identification of key performance indicators (**"KPIs"**), the relevant measurements and mitigating measures. The ESG Policy will be reviewed on an annual basis to ensure that it remains relevant and appropriate to the needs of our operation.

ESG Governance

Our Directors acknowledge the importance of corporate social responsibility to our long-term success. We view corporate social responsibility as part of our core growth philosophy that will be pivotal to our ability to create sustainable value for our Shareholders by embracing diversity and public interests. Pursuant to our ESG Policy, our Board is responsible for setting up our Group's overall ESG vision, target and strategy, reviewing our ESG Policy on an annual basis to ensure its effectiveness, and fostering a culture of acting in accordance with the core ESG values and principles.

Pursuant to our ESG policy, we have established an ESG Committee under our Board, which is responsible for overseeing and guiding the ESG initiatives of our Group. As set forth in our ESG policy, the ESG Committee is composed of leaders of various key operational functions, including our human resources, finance, development and supply chain centers and other core management representatives as may be appropriate from time to time. Set forth below are the principal duties and responsibilities of our ESG Committee:

- following the latest ESG-related laws and regulations, including the applicable sections of the Listing Rules, keeping the Board informed of any changes in such laws and regulations and updating our ESG Policy accordingly;

- assessing ESG-related risks on a regular basis according to applicable laws, regulations and policies to ensure our responsibilities with respect to ESG matters are met;

- monitoring local environmental, social and climate changes in regions where we operate and take timely measures to mitigate the risks associated with such volatile changes during our routine business operations;

- monitoring the implementation of our ESG Policy and engaging a third-party consultant to support us in fulfilling our ESG objectives if considered to be necessary;

- meeting on a semi-annual basis to identify, assess and manage progress of key ESG objectives; and

- preparing ESG report and reporting to our Board on an annual basis on the ESG performance of our Group, the effectiveness of our ESG Policy and any applicable recommendations.

During the Track Record Period and up to the Latest Practicable Date, we complied with relevant environmental and occupational health and safety laws and regulations in all material aspects, and we did not encounter any incidents or complaints that would have any material adverse impact on our business, financial condition or results of operation during the same period.

Social Responsibility

Since we were founded, we have been highly committed to supporting and participating in social responsibility projects that align with our values. We actively participate in community building and care for the disadvantaged. Leveraging our resources, we have taken concrete actions to lend our hands to people who had been facing with or are facing natural disasters. For example, we made a donation of RMB3.0 million to the charity organization in Henan province in response to a record-breaking heavy rainfall took place on July 20, 2021 which made many people become destitute and homeless. We will continue to promote social development and encourage employees to participate in charitable activities.

We have adopted a set of initiatives to be socially responsible. For example, we encourage low-carbon and environmentally friendly travel. Our staff patrol all areas of our offices around the clock to turn off unnecessary air conditioning and power equipment in a timely manner to reduce waste of resources. We actively promote a paperless office. For documents that must be printed, we encourage double-sided printing. We also actively classify garbage for recycling and reduce domestic and work waste. To ensure compliance with applicable laws and regulations, our human resource department will, if necessary and after consultation with our legal advisors, adjust our human resources policies to accommodate material changes to relevant labor and safety laws and regulations.

In addition, we embrace diversity within our organization, provide equal and respectful treatment to all of our employees, and maximize equal career opportunities for everyone. Therefore, we consider diversity in determining the composition of our personnel. For example, as of the Latest Practicable Date, women accounted for one third of our Board of Directors. In the next three years, we intend to maintain the female proportion of our Board of Directors at around one third.

Environmental Sustainability

We are subject to environmental protection, occupational health and safety laws and regulations in the PRC. We consider the protection of the environment important and have implemented measures to ensure our compliance with all applicable requirements. Due to the nature of our business where we do not operate in a highly-polluted industry, we believe our operations do not produce material industrial waste and have a relatively limited impact on the environment.

Nevertheless, we acknowledge that climate-related issues pose a certain level of threat to us and are dedicated to monitor and mitigate our ESG-related risks. Under the guidance of Task Force on Climate-related Financial Disclosures recommendations, we have mainly identified two categories of climate-related risks: physical risk and transitional risk. We define physical risks as risks related to physical impact of climate change, either driven by acute weather-related events or long-term chronic shifts in climate patterns. We define transitional risks as risks related to the transition to a lower-carbon economy, which may entail policy, legal, technology, and market changes.

Physical risks

We believe that climate-related issues may bring about the risk of increasingly severe extreme weather events, such as frequent and severe occurrences of typhoons, hurricanes, droughts, flooding and increased rainfall, which may cause direct damage to our assets and employees and indirect impact on our supply chain. Specifically, we may potentially be impacted by an increased operation and maintenance cost of our retail stores, warehouses and headquarters, as well as increased investment in insurance for protection. Moreover, the health and safety of employees may also be endangered, and the flow of consumers to our retail stores may be adversely impacted. Furthermore, such weather conditions are anticipated to cause disruption to supply chain and transport services, which may in turn result in delay of delivery of our products.

Transitional risks

Our business operations are subject to environmental protection laws and regulations promulgated by the PRC government. Maintaining compliance with applicable environmental rules and regulations, which may change from time to time, may not only increase our cost of compliance but also increase the litigation risks in our operations. If we fail to comply with any environmental-related laws and regulations, or face any accusation of negligence in environmental protection, we may be subject to potential fines and penalties, and mandatory suspension of our operation. Furthermore, such incidents may also adversely affect our reputation and reduce our competitiveness to new investors. Our business opportunities may be negatively impacted, for instance, our suppliers may be less willing to grant us a longer credit term or customers may lose confidence and interest in our brands and products provided because of our reputational damage and loss of creditability.

Furthermore, potential transitional risks may result from the transition to a lower-carbon economy which entails change in climate-related regulations and policy, and technology risks. Tightened environmental regulations may require significant investment to be made in transforming our business and operations, such as adoption of more environmentally friendly materials for renovation and decorations of our retail stores, which may increase expenses.

In addition, customer awareness of environmental protection has evolved, and more customers are likely to change their consumption habits and pay more attention to product traceability, environmental protection, and high-quality product requirements. This may bring more potential opportunities to us. In particular, with the popularization and application of our self-developed technologies, we have streamlined our overall business operations and will see an improvement in managing energy efficiency. As a result, we will have more opportunities to be recognized by customers and business partners than less environmentally conscious competitors. At the same time, as the public shifts to greener consumption habits, our well-established brand awareness and high-quality product will enable us to acquire a larger market share in the future, which will be beneficial for the increase of our popularity, sales, and profit margins. In the future, we will continue to explore sustainable business opportunities and apply more environmentally friendly new technologies, and we are committed to practicing corporate social responsibility and low-carbon development strategies.

We will evaluate the likelihood of occurrence and the estimated magnitude of the resulting impact from the physical risks and transitional risks. The decision to mitigate, transfer, accept or control a risk is influenced by various factors such as business location, cost-benefit analysis and change in regulatory landscape. We will incorporate physical and transitional risk analysis into risk assessment processes and risk appetite setting. If the risks and opportunities are considered to be material, we will incorporate them into the strategy and financial planning process. It is expected that the extreme weather conditions for potential physical risks, and change in climate-related regulations and policy for potential transitional risks would not have a material impact on our operation in the short and medium terms. We also aim to minimize the transitional risk in the long term through reducing our carbon footprints.

Notwithstanding the above, due to our effective internal control, our business, results of operation and financial condition had not been materially adversely impacted by any climate-related incident during the Track Record Period and up to the Latest Practicable Date.

Identification, Assessment and Management of Environmental, Social and Climate-related Risks and Opportunities

Supervised by our Board, we have actively identified multiple risks and related opportunities on ESG-related issues through regular assessment and internal report procedure during our years of operation and interactions with external stakeholders, including our customers and suppliers, governmental bodies, and business partners.

Our ESG Committee set under the Board is generally in charge of assessing and identifying ESG-related risks and opportunities through in-depth research and analysis, and shaping our medium and long-term development strategies in response to such risks and opportunities, taking into various factors, including among others, local environmental, social and climate changes in regions where our retails stores are situated, national and local environmental protection laws and regulations, customer preferences for eco-friendly products and packaging materials, as well as negative impact on our brand image in case of failure to comply with applicable environmental protection laws and regulations in any material respect. Our functional departments also assign dedicated individuals to be responsible for the collection of ESG-related data, and report regularly to the management of our Company to assist them in assessing and determining whether ESG-related risk management and internal control system is appropriate.

Risks and opportunities identified and their impact on our business, strategies and financial planning

Based on our management's judgment, we have identified the following risks and opportunities:

Material Topics	Potential Risks, Opportunities and Impacts
Greenhouse gas emissions and resource consumption	The impact of our operating activities on the natural environment is limited, given that there is no hazardous emission and sewage from our operation, but only limited greenhouse gas ("**GHG**") emissions through the use of electricity provided by the office building where we operate. Nonetheless, we may face an increased operational cost and expense of new equipment and facilities for transition to green building. We also identify opportunity in our daily operation to enhance our environmental performance through implementing our policy with respect to resources conservation.
Solid waste	In our NDCs, warehouses and retail stores, waste, including packaging waste such as cardboard, paper and plastic film, store landscape maintenance waste, as well as discarded merchandise waste due to various factors such as poor handling and damage caused by third-party logistics service providers and exceeding the best use period of particular merchandise, needs to be carefully sorted and handled by specialized service providers to reduce environmental impact.
Construction and decorating materials	Construction and decorating materials used during the setting up and renovation of our stores may cause potential impact on the environment. If we can collaborate with suppliers, contractors, and other relevant stakeholders to understand their ESG practices, we can then align with them on sustainability goals and expectations. Sustainable options such as materials with recycled content, renewable resources, or materials that can be easily recycled or reprocessed are considered environmental-friendly and preferred during the construction and decoration process.
Consumer preference	Driven by increased global awareness of climate change, technological advances and health concerns, protecting environment has become a priority for consumers. In light of collective global concern over the global environment, an increasing number of consumers may shift their preferences to a sustainable lifestyle. This creates a risk that our original merchandise portfolio may become less attractive, which would result in lost sales. Meanwhile, we could take the initiative to upgrade our merchandise portfolio with reusable products of high quality to seize business opportunity.

Material Topics	Potential Risks, Opportunities and Impacts
Packaging materials	During the Track Record Period, we have used packaging materials for our products primarily in our retail stores, such as packaging bags, packaging boxes, gift boxes and product labelling. To mitigate the impact of our packaging materials to the environment, we have introduced biodegradable plastic bags, non-woven fabric bags and other recyclable packaging material as part of our sustainability initiatives.
Product safety and quality	Our product safety guidelines and policies, standards and procedures, inspections and checks, and training on proper product safety practices, among others, may not be adequate. As a result, we may be subject to risks of receiving consumer complaints or governmental penalties and our reputation may be adversely impacted. We also identify opportunity in our daily operation to enhance our product safety through upgrading safety guidelines and policies.
Employment right protection	We value our employees and are required to comply with labor protection laws and regulations. However, the health and safety of employees may be put at risk due to climate-related issues, such as increasingly frequent extreme weather conditions. As a result, we intend to enhance our internal control in terms of employee right protection, provide a better employee benefit and incentive mechanism and continue to build a safe working environment.
Supplier and service provider management	We typically procure merchandise from Third Party Brand Suppliers and OEM and ODM contractors, and engage third-party logistics service providers. We regard such suppliers and service providers as an extension of our team, together with whom we provide high quality products to our clients. In addition to requirements on qualifications and experience of our suppliers and service providers, we have started to explore, together with our suppliers and service providers, whether any eco-friendly material or way of working could be potentially employed.

The abovementioned business opportunities and risks identified will be further evaluated on an annual basis by our Board upon [**REDACTED**]. We would aim to review the abovementioned risks and opportunities by the end of this fiscal year in a manner to gauge and quantify the financial impact in respect of respective revenue and expense profiles. If the risks and opportunities are considered to be material, the Board may revise and adjust our strategies and mitigation steps as appropriate.

Mitigating steps to be taken over the short, medium and long term to address risks identified

We believe in the importance of caring for our planet and we strive to balance our role as a for-profit company with the betterment of people of the planet. Under such guidelines, our ESG Committee has effectively put in place a series of comprehensive and effective mitigation measures to prevent the risks from causing unnecessary impact on our operations.

- *Management of greenhouse gas emissions and resource consumption*. Energy consumption in our office premises is the main source of greenhouse gas emissions in our operation. We advocate the concept of greener office and incorporate ESG-related matters into various training programs in order to raise energy consumption awareness of our employees. We make constant improvements to our equipment in order to reduce energy consumption. In particular, we purchase and use environmental-friendly electrical appliances and facilities in our office, such as energy-saving air conditioners. We promote electricity saving initiatives, including:

    ◦ gradually replacing high energy-consuming equipment to reduce energy consumption;

    ◦ inspection and cleaning of refrigeration equipment on a regular basis in the office areas to maintain the equipment condition at a proper energy consumption level;

    ◦ maintaining and replacing faulty equipment in a timely manner to avoid wasting electricity due to equipment damage or poor insulation; and

    ◦ reducing the overall electricity consumption in response to national policies.

  As a demonstration of our environmental concern, we also abide by the "3R" strategy, which entails reducing waste, reusing resources, and recycling materials, to the greatest extent possible in our business operation.

  We advocate for the reuse of materials to minimize resource consumption, such as paper, packaging boxes and bags in our operations. Furthermore, we are reducing our reliance on paper and aim to transform to a non-paper operation eventually through office digitalization. We also actively promote recycling office supplies, reducing travel by using emails and video conferences and prohibiting smoking in the office building.

  In addition, we strive to conserve water by implementing measures such as performing regular checks on faucets to avoid unnecessary leakage and enabling prompt reporting of any damages, and actively promoting water conservation awareness among employees by placing water-saving signs in offices. We will continuously look for effective ways to reduce energy use and our carbon footprint.

- *Management of solid waste*. To minimize the impact of the solid waste, we perform garbage collection and sorting according to relevant PRC laws and regulations. Classified solid waste is then collected and processed by relevant city sanitation departments. In order to reduce the impact of solid waste on the environment, we have formulated clear guidelines for employees to identify, collect, store and dispose of solid waste. Proper trainings are provided for our employees on waste classification. Reusable waste, such as paper are handled by third-party waste management and recycling companies. Other waste cannot be recycled are handled by waste disposal companies. All waste produced by us is treated in compliance with applicable environmental standards. We attach importance to the recycling and reuse of solid waste. We are committed to developing in a sustainable manner and minimizing the impact of solid waste, and would engage qualified third parties to collect and dispose of potentially hazardous waste if necessary.

- *Management of construction and decorating materials*. To mitigate environmental footprint of construction and decorating materials used during store setup and renovation, we prioritize materials that are responsibly sourced. We prefer suppliers and contractors who follow sustainable practices, ensure fair labor conditions, and adhere to environmental regulations. We also opt for materials that promote energy efficiency. For example, we would select insulation materials that help maintain a stable indoor temperature and reduce the energy required for heating or cooling. We will ensure that the paints, adhesives, and other finishes used do not emit harmful chemicals or volatile organic compounds that could negatively affect air quality. For waste generated during construction and renovation activities, we encourage recycling and proper disposal of materials to reduce the negative impact on the environment.

- *Management of consumer preference*. To effectively cater for the rising awareness of customers on environmental protection, we continue to optimize our store design to take advantage of natural lighting and reduce power usage at retail store level. To mitigate the impact of our packaging on the environment, our retail stores are required to adopt the policy to use the fully biodegradable material for our plastic bags. We will also continue implementing our customer-centric merchandise portfolio expansion, with attention on long lasting quality products that answer for sustainable customer habits.

- *Management of packaging materials.* We are committed to environmental protection and we advocate and practice sustainable development. We strive to reduce the impact of pollution of product packaging materials on the environment. We do not provide excessive product packaging and adhere to the principles of recycling and environmental friendliness for packaging materials. We have introduced non-woven fabric bags, biodegradable plastic bags as well as paper bags with the advancement of relevant technologies and issuance of favorable policies. Although we generally advocate for environmental sustainability, non-biodegradable packaging materials are either handled by consumers or collected by independent waste management companies. Going forward, we will continue to promote the de-plasticization of product packaging and gradually increase the proportion of biodegradable packaging materials which are environmentally friendly.

- *Management of product safety and quality.* We comply with relevant laws and regulations regarding products safety in all material respects and are prudent in every aspect from procurement, delivery, storage and distribution of products. We require the same for our manufacturers and will have our retail store staff to regularly examine in-store product safety and quality. Further, we make product safety and quality one of the key performance metrics in the performance evaluation for our retail stores.

- *Management of employee rights.* We endeavor to promote an open, transparent and inclusive work environment through an emphasis on communication and participation. Our employees are entitled to the welfare benefits and a broad range of career development opportunities through our sound talent cultivation mechanism. We also value the gender equality and diversity at workplace, and we have taken initiatives to broaden the impact of female workers, and empower and encourage them to share their perspectives. We will also:

  ◦ In the short term: provide training for staff, with at least two working days per person per year.

  ◦ In the medium term: develop an offer of partial cost coverage for staff professional training as well as paid leave for such training upon approval.

  ◦ In the long term: consider other means for our staff to share the future success of our business following the [**REDACTED**].

- *Management of suppliers and service providers.* When selecting suppliers and service providers, we take environmental impacts into consideration. We give priority to suppliers that pose fewer environmental impacts by utilizing eco-friendly packaging materials, emitting fewer greenhouse gases, and consuming fewer energy resources.

  We require our suppliers and service providers to provide relevant qualifications or certifications, and comply with applicable national regulations in terms of labor protection, environment and social responsibility. We would warn or terminate collaboration once we found suppliers or service providers violate such regulations or fail our evaluation.

  We have implemented various measures to encourage our suppliers to minimize environmental impacts, such as procuring eco-friendly components, utilizing biodegradable paper packaging materials, reducing the number of packaging materials for our products, as well as reusing paper boxes and requiring recycled packaging materials.

  We also encourage our logistics partners to use eco-friendly transportation vehicles such as electric trucks for pickup and delivery.

Metrics and Targets

We actively work to promote our growth and operations in a sustainable and responsible manner and aim to become a company built on responsible strategies. To promote our sustainable development, our environmental protection performances were monitored by us under our ESG policy in various aspects, particularly the efficiency in the use of resources.

Packaging Materials

The table below sets forth a quantitative analysis of the number of various types of packaging bags primarily used in the stores under our retail brands during the Track Record Period:

	Year Ended December 31,			Ten Months Ended
	2020	2021	2022	October 31,
	(Number by piece in thousands)			
Traditional plastic bags	10,443	10,251	10,940	15,226
Paper bags	4,965	3,653	6,794	9,108
Fully biodegradable plastic bags	673	7,798	3,161	828
Non-woven fabric bags	–	–	999	3,811
Total	16,081	21,702	21,894	28,972

When purchasing retail packaging bags, we require suppliers to provide correspondent environmental qualification certificates, such as environmental impact approval. At the same time, we are more inclined to choose merchants with ISO14001 certification. Since 2020, we have introduced fully biodegradable plastic bags as part of our sustainability initiatives to mitigate the impact of our packaging to the environment. Since 2022, we have implemented the use of non-woven fabric bags to further reduce the environmental impact of our packaging. As of October 31, 2023, more than half of the stores under our retail brands had adopted paper bags, non-woven fabric bags, or fully biodegradable material to replace traditional plastic bags. In addition, we continue to phrase out traditional non-degradable plastic bags and target to eliminate the use of such packaging materials throughout our retail store network by 2025, based on our projections of business expansion, and taking into account relevant sustainable measures and packaging materials that may be adopted in the future.

Power Usage

We are committed to actively conserving energy in response to government's initiatives. We primarily consume electricity in our operational activities. We use kWh per million GMV as a metric to monitor the effectiveness of our energy conservation efforts. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, we had 15,843 kWh, 15,822 kWh, 16,985 kWh, and 13,752 kWh, per million GMV, respectively. We have set a target of reducing electricity power usage per million GMV to 13,500 kWh and currently expect to achieve such target in the next three years.

These measures include: (i) procuring and installing energy-efficient equipment in our offices, (ii) raising employee awareness of energy conservation through training and ensuring timely power-off of lights and appliances when not in use, and (iii) setting appropriate air conditioning temperatures and closing windows when the air conditioning is in use.

Water Consumption

We actively embrace social responsibility to practice water conservation. In the ten months ended October 31, 2023, our water consumption was 7,888 m^3 in our headquarters in the PRC. Such water consumption includes water usage and wastewater discharge in our offices. We shall take measures to further protect water resources and plan to continue reducing our water consumption over the next three years.

These measures include: (i) implementing moderate water recycling and urging employees to promptly turn off faucets; (ii) conducting regular inspections of water tanks to prevent leakage; and (iii) fostering a water-saving culture within the organization through a variety of activities and campaigns, encouraging employees to conserve water in their daily work and personal lives.

Setting and Achieving the Targets

When setting targets for each KPI, we will take into account the respective historical levels during the Track Record Period, and have considered our future business expansion with a view to balancing business growth and the need of ESG to achieve sustainable development. The relevant material KPIs will be reviewed regularly to ensure that they remain appropriate to the needs of our Group. While we appreciate that the identification and prioritization of the ESG-related issues is a dynamic and on-going process, we will build the following targets as our initial focuses:

(i) achieve further deduction in energy and water consumption in the next three years;

(ii) conduct anti-corruption training by a third-party specialist for all members of our staff (including directors of our Group) with 100% attendance and at least one hour per person; and

(iii) provide ESG-related training for our staff members, with at least two working days per person per year.

In the upcoming future, our administrative expenses regarding environmental, social, and climate-related issues are estimated to increase along with our overall business development, however, the percentage of such administrative expenses against our total revenue is estimated to trend downwards.

OUR SINGLE LARGEST SHAREHOLDERS GROUP

The Single Largest Shareholders Group, Mr. Wu, Mr. Guo and their respective wholly-owned investment holding companies (namely, MOGR and Starlight), is a group of persons acting in concert with each other. Mr. Wu and Mr. Guo have been acting in concert in relation to the exercise of their voting rights in our Company at the meetings of the Shareholders and the Board in respect of the matters of our Group since January 2017 when Mr. Guo joined our Group. To record such concert parties relationship, on September 23, 2021, Mr. Wu and Mr. Guo entered into an acting-in-concert confirmation (the "**Concert Parties Confirmation**"), pursuant to which Mr. Wu and Mr. Guo confirmed, among other things, that they (together with their respective wholly-owned investment holding companies) have been acting in concert in respect of the matters of our Group with each other since January 2017, and would continue to act in the same manner until the date when the Concert Parties Confirmation is amended or terminated by mutual consent of the parties thereto.

As of the Latest Practicable Date, the Single Largest Shareholders Group collectively was interested in approximately 28.3865% of the total issued share capital of our Company, comprising (i) the Shares representing approximately 24.0023% of the issued share capital of our Company directly held by MOGR, and (ii) the Shares representing approximately 4.3842% of the issued share capital of our Company directly held by Starlight. Furthermore, Mr. Wu and Mr. Guo, through MOGR and Starlight, were together in a position to control the composition of a majority of our Board pursuant to the amended and restated memorandum and articles of association of our Company. Accordingly, Mr. Wu and Mr. Guo, together with MOGR and Starlight, constituted a group of controlling shareholders of our Company as defined under Rule 1.01 of the Listing Rules.

Following completion of the [**REDACTED**] (without taking into account the Shares that may be issued upon the exercise of the [**REDACTED**]), the Single Largest Shareholders Group will be interested in approximately [**REDACTED**]% of the enlarged issued share capital of our Company, comprising (i) the Shares representing approximately [**REDACTED**]% of the enlarged issued share capital of our Company directly held by MOGR, and (ii) the Shares representing approximately [**REDACTED**]% of the enlarged issued share capital of our Company directly held by Starlight. Furthermore, none of Mr. Wu, Mr. Guo, MOGR or Starlight will have the right to control the nomination or appointment of a Director after completion of the [**REDACTED**]. Accordingly, Mr. Wu and Mr. Guo, together with MOGR and Starlight, will cease to be our controlling shareholders but will together constitute our Single Largest Shareholders Group after the [**REDACTED**]. Our Company will not have any controlling shareholder after completion of the [**REDACTED**].

For more details of the members of our Single Largest Shareholders Group, please refer to the sections headed "History, Reorganization and Corporate Structure" and "Directors and Senior Management" of this document.

INDEPENDENCE FROM THE SINGLE LARGEST SHAREHOLDERS GROUP

After considering the following factors, our Directors are of the view that we are capable of independently carrying on our business from members of the Single Largest Shareholders Group and their respective close associates.

(a) Financial Independence

We have established our own finance department with a team of independent financial staff responsible for discharging treasury, accounting, reporting, group credit and internal control functions independent from members of the Single Largest Shareholders Group and their respective close associates, as well as a sound and independent financial system, and make independent financial decisions according to our own business needs. We maintain bank accounts independently and do not share any bank account with members of the Single Largest Shareholders Group or their respective close associates. We make tax registration and pays tax independently with our own funds. As such, our financial functions, such as cash and accounting management, invoices and bills, operate independently of members of the Single Largest Shareholders Group and their respective close associates.

Our Directors confirm that, as of the Latest Practicable Date, there were no subsisting loans, guarantees or pledges provided by members of the Single Largest Shareholders Group and/or their respective close associates to our Group.

Based on the above, our Directors are of the view that we are able to maintain financial independence from members of the Single Largest Shareholders Group and their respective close associates.

(b) Operational Independence

We do not rely on the members of the Single Largest Shareholders Group and their close associates for our finance, audit and control, sales and marketing, human resources, administration or company secretarial functions. We have our own departments specializing in these respective areas which have been in operation and are expected to continue to operate separately and independently from the members of the Single Largest Shareholders Group and their close associates. We have access to suppliers and customers independent of the Single Largest Shareholders Group. We are also in possession of all relevant licenses and own all relevant intellectual properties and research and development facilities necessary to carry on and operate our business, and we have sufficient operational capacity in terms of capital and employees to operate independently from the Single Largest Shareholders Group. Our Directors do not expect that there will be any transactions between our Company and the Single Largest Shareholders Group upon or shortly after the [**REDACTED**].

Based on the above, our Directors are of the view that we are able to operate independently from the Single Largest Shareholders Group after the [**REDACTED**].

(c) Management Independence

We are able to carry out our business independently from the members of the Single Largest Shareholders Group and their respective close associates from a management perspective. Upon [**REDACTED**], our Board of Directors will consist of nine Directors, comprising five executive Directors which include, among others, Mr. Wu and Mr. Guo, one non-executive Director and three independent non-executive Directors.

Our management and operational decisions are made by our Board of Directors and senior management collectively, most of whom have served our Group for a significant period and have substantial and extensive relevant industry experience and expertise. Other than Mr. Wu and Mr. Guo, none of the Directors or members of the senior management of our Company holds any directorships and/or other roles with any companies owned or controlled by the members of the Single Largest Shareholders Group and their close associates.

Our Directors are of the view that our Board of Directors and senior management will function independently from the Single Largest Shareholders Group for the following reasons:

(i) each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interests to exist;

(ii) the Articles of Association (which will be effective on the [**REDACTED**]) require a Director to declare his/her interest in any contract or arrangement in which he has an interest and he/she is not entitled to vote on (nor be counted in the quorum in relation to) any resolution of the Board approving any contract or arrangement or any other proposal in which he/she or any of his/her close associates has a material interest, except in certain prescribed circumstances, details of which are set out in the section headed "Appendix III – Summary of the Constitution of the Company and Cayman Islands Company Law" in this document. The provisions of the Articles of Association ensure that matters involving a conflict of interest which may arise from time to time will be managed in line with accepted corporate governance practice with a view to ensuring that decisions are taken having regard to the best interests of our Company and the Shareholders (including the independent Shareholders) taken as a whole;

(iii) following the [**REDACTED**], the Board will be required to comply with the Listing Rules, including the provisions relating to corporate governance which require, among other things, that a Director shall not vote on any Board resolution, any contract or arrangement or any other proposal in which he or any of his/her associates has a material interest, nor shall he/she be counted in the quorum for the meeting; and

(iv) our independent non-executive Directors have extensive experience in different areas and have been appointed in accordance with the requirements under the Listing Rules to ensure that the decision of the Board of Directors are made only after due consideration of independent and impartial opinions.

INTEREST IN COMPETING BUSINESS OF THE SINGLE LARGEST SHAREHOLDERS GROUP AND THE DIRECTORS

None of the members of the Single Largest Shareholders Group or our Directors was, as of the Latest Practicable Date, interested in or engaged in any business, other than our Company, which, competes or is likely to compete, either directly or indirectly, with our Group's businesses and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

BOARD OF DIRECTORS

Our Board comprises nine Directors, including five executive Directors, one non-executive Directors and three independent non-executive Directors. Our Board is responsible for and has the general power over the management and operation of our business, including determining our business strategies and investment plans, implementing resolutions passed at our Shareholders' general meetings, and exercising other powers, functions and duties as conferred by the Articles of Association. Our Board also assumes the responsibilities for convening general meetings and reporting the Board's work at our Shareholders' meetings, developing and reviewing the policies and practices of our Company on corporate governance, risk management and internal control and compliance with legal and regulatory requirements.

The table below sets forth the key information of our Directors:

Name	Age	Position(s)	Date of appointment as a Director	Time of joining our Group	Roles and responsibilities
Mr. Wu Yuening (吳悅寧)	39	Founder, chairman of the Board, executive Director and chief executive officer	August 7, 2020	April 2015	Responsible for overall management, strategic planning, business and daily operations of our Group
Mr. Guo Huibo (郭惠波)	38	Executive Director and president	March 29, 2019	January 2017	Responsible for overall financial management, legal and human resources management and international business management of our Group
Ms. Shu Yanfang (舒豔芳)	40	Executive Director and vice president	August 7, 2020	August 2015	Responsible for managing business development and expansion of our Group
Ms. Peng Yao (彭瑤)	36	Executive Director and vice president	August 7, 2020	June 2016	Responsible for overall merchandise management of our Group
Mr. Chen Shixin (陳世欣)	36	Executive Director and business systems specialist	August 7, 2020	April 2016	Responsible for business information technology system of our Group
Mr. Liang Jie (梁捷)	48	Non-executive Director	August 7, 2020	August 2020	Responsible for providing advice on the business and strategic developments of our Group
Mr. Yu Jianfeng (余劍峰)	41	Independent non-executive Director	[REDACTED]	[REDACTED]	Responsible for providing independent advice on the operations and management of our Group
Ms. Shi Meng (時朦)	36	Independent non-executive Director	[REDACTED]	[REDACTED]	Responsible for providing independent advice on the operations and management of our Group
Mr. Ying Kejing (應可靖)	48	Independent non-executive Director	[REDACTED]	[REDACTED]	Responsible for providing independent advice on the operations and management of our Group

Executive Directors

Mr. Wu Yuening (吳悅寧), aged 39, is the founder and chief executive officer of our Group. Mr. Wu was appointed as our Director and our chairman on August 7, 2020 and was redesignated as our executive Director on September 20, 2021. Mr. Wu is primarily responsible for overall management, strategic planning, business and daily operations of our Group. Mr. Wu has more than 10 years of experience in the business management field and development of information solutions for the retail industry.

In September 2008, Mr. Wu co-founded Dongguan Yidu Network Technology Co., Ltd. (東莞市易得網絡科技有限公司, "**Dongguan Yidu**") with a business partner (an independent third party). He has served as the chief executive officer of Dongguan Yidu from September 2008 to February 2015, and subsequently has been serving as its supervisor since February 2015. Dongguan Yidu is a company principally engaged in the research and development of software systems, including store mall system, O2O mall system, membership marketing system, community group purchase mall system and intelligent data analysis, and its businesses are still ongoing. Mr. Wu has launched various retail solutions with Dongguan Yidu, including the "Cross-border E-commerce New Retail Solutions", the "Horizontal/Merchant Alliances Solutions", the "Chain Convenience Store New Retail Solutions" and the "Beauty Industry Integrated Solutions", cumulatively serving more than 200 medium and large retail enterprises. In April 2015, Mr. Wu founded Guangdong Kuaike Electronic and launched KK Guan.

Over the years, Mr. Wu obtained awards and honors in recognition of his entrepreneurship achievements and accomplishments, including "40 business elites under the age of 40 in PRC (中國40位40歲以下的商界精英)" awarded by Fortune China (財富中文網) in April 2021, "36 outstanding entrepreneurs under the age of 36 (36位36歲以下了不起的創業者)" awarded by 36Kr (36氪) in November 2020, "New Top 50 Business Leaders in 2020 (2020最佳新經濟領袖50強榜單) awarded by iAsk (艾問) in January 2020, "Chasing Dreams of the Times – Leaders in the Retail Industry (時代追夢-零售業領袖人物)" awarded by Winshang.com (贏商網) in August 2020 and "Leader Award (領袖欣星獎)" awarded by China Shopping Center Industry Service Platform (中國購物中心產業服務平台) in January 2020.

Mr. Wu obtained a bachelor's degree in software engineering from Dongguan University of Technology (東莞理工學院), Dongguan, Guangdong Province, the PRC in June 2007.

Mr. Guo Huibo (郭惠波), aged 38, is the president of our Group. Mr. Guo was appointed as our Director on March 29, 2019 and was redesignated as our executive Director on September 20, 2021. Mr. Guo is primarily responsible for overall financial management, legal and human resources management and international business management of our Group. Mr. Guo tapped into the retail industry and joined our Group in January 2017 as the president of our Group. Prior to joining our Group for the above-mentioned positions in January 2017, Mr. Guo had worked in China Everbright Bank.

Mr. Guo obtained a bachelor's degree in business administration from Dongguan University of Technology (東莞理工學院) in Dongguan, Guangdong Province, the PRC, in June 2008.

Ms. Shu Yanfang (舒豔芳), aged 40, was appointed as our Director on August 7, 2020 and was redesignated as our executive Director on September 20, 2021. Ms. Shu is primarily responsible for managing business development and expansion of our Group. Since joining our Group in August 2015, Ms. Shu has successively served as the vice general manager and the vice president of the development center of Guangdong Kuaike Electronic, a wholly-owned subsidiary of our Company. Ms. Shu has over 12 years of experience in the sales industry. Prior to joining our Group, from October 2007 to July 2014, Ms. Shu served as the sales director of Guangzhou Liye Clothing Co., Ltd (廣州市麗葉服飾有限公司), responsible for the overall sales and marketing management of the company.

Ms. Shu obtained a diploma in marketing from Jingmen Vocational and Technical College (荊門職業技術學院) in Jingmen, Hubei Province, the PRC, in July 2003.

Ms. Peng Yao (彭瑤), aged 36, was appointed as our Director on August 7, 2020 and was redesignated as our executive Director on September 20, 2021. Ms. Peng is primarily responsible for overall merchandise management of our Group. Ms. Peng joined our Group in June 2016 and has held several positions within the product center of Guangdong Kuaike Electronic. since then, including serving as the procurement manager from June 2016 to March 2018 and the product director from March 2018 to July 2019. Since August 2019, Ms. Peng has served as the vice president of the product center of Guangdong Kuaike Electronic, primarily responsible for the procurement and sales strategy formulation. Ms. Peng has more than 10 years of experience in the business management field. Prior to joining our Group, Ms. Peng has worked in Dongguan Yidu from May 2012 to January 2014, primarily responsible for the company's overall sales management.

Ms. Peng obtained a bachelor's degree in international economics and trade from the Network Education College of Beijing Foreign Studies University (北京外國語大學網絡教育學院), the PRC through long-distance education in July 2018.

Mr. Chen Shixin (陳世欣), aged 36, was appointed as our Director on August 7, 2020 and was redesignated as our executive Director on September 20, 2021. Mr. Chen is primarily responsible for business information technology system of our Group. Since April 2016, Mr. Chen has served as the business systems specialist in our Group, primarily responsible for the development of our business systems projects. Prior to joining our Group, Mr. Chen has worked successively as a development engineer and a PHP programmer in Dongguan Yidu from March 2009 to April 2016.

Mr. Chen obtained a bachelor's degree in computer applied technology from Guangzhou Vocational and Technical College of Science and Technology (廣州科技職業技術學院) (currently known as Guangzhou Vocational and Technical University of Science and Technology (廣州科技職業技術大學)) in Guangzhou, Guangdong Province, the PRC in June 2009.

Non-executive Director

Mr. Liang Jie (梁捷), aged 48, was appointed as our Director on August 7, 2020 and was re-designated as our non-executive Director on September 20, 2021. He is responsible for providing advice on the business and strategic development of our Group. Mr. Liang has been serving as a director of Buer Capital Limited (a company that principally engages in the business of investment holding) since November 2020, in which he is mainly responsible for business planning and investment management. Mr. Liang has also been serving as a director of Buer Capital Star Pte Ltd. (a company that principally engages in the business of investment holding) since December 2021, in which he is mainly responsible for business planning and investment management . Since August 2017, Mr. Liang has been the partner and co-founder of Kamet Capital Partners Pte Ltd., a company engages in capital markets services and fund management. Prior to joining our Group, Mr. Liang was the co-founder of UCWeb Inc. (優視科技有限公司) (a company being fully acquired by Alibaba Group Holding Limited in June 2014) and Mr. Liang served as the president of the search engine Shenma (神馬) in Alibaba Mobile Business Group until June 2017.

Mr. Liang obtained a bachelor's degree in computer science from South China University of Technology (華南理工大學) in Guangzhou, Guangdong Province, the PRC in July 1998.

Independent non-executive Directors

Mr. Yu Jianfeng (余劍峰), aged 41, was appointed as our independent non-executive Director with effect from the [**REDACTED**]. He is primarily responsible for providing independent advice on the operations and management of our Group. Mr. Yu has more than 14 years of experience in the business education field in the PRC and the United States.

Since September 2016, Mr. Yu has been the chair professor in finance in PBC School of Finance of Tsinghua University (清華大學五道口金融學院) of the PRC, primarily responsible for teaching finance. Prior to that, Mr. Yu was the vising professor in finance in Anderson School of Management, University of California of the United States from January to February 2019 and January to February 2020, primarily responsible for teaching finance. Mr Yu was also the professor of finance and Executive Associate Dean in School of Management and Economics in Chinese University of Hong Kong (Shenzhen) from June 2015 to September 2016, primarily responsible for teaching finance. Prior to that, Mr. Yu was also visiting professor of finance in PBC School of Finance of Tsinghua University of the PRC from June 2014 to January 2015, primarily responsible for teaching finance.

Mr. Yu obtained a doctor's degree in finance from the Wharton School of University of Pennsylvania in the United States in May 2008. Prior to that, Mr. Yu obtained a master's degree in statistics from Yale University in the United States in September 2001. Mr. Yu also obtained a bachelor's degree in probability and statistics at University of Science and Technology of China (中國科學技術大學) in the PRC in July 2000.

Mr. Yu served as an independent non-executive director of Hubei Mailyard Share Co., Ltd. (湖北美爾雅股份有限公司) (listed on the Shanghai Stock Exchange, stock code 600107) from October 2019 to February 2022.

Ms. Shi Meng (時朦), aged 36, was appointed as our independent non-executive Director with effect from the [**REDACTED**]. She is primarily responsible for providing independent advice on the operations and management of our Group. Ms. Shi has more than 7 years of experience in the education field in the PRC and more than 4 years of experience in the investment banking field in the United Kingdom.

Ms. Shi is the founder of Tifen Online (緹紛在線), an online academy which offers international academic programs and tutorials since March 2018. She is also the co-founder of Elitek12 Group (北京義格教育集團) in November 2012, which primarily operates the brand of "HD School" (赫德雙語學校) in the PRC since 2014. Ms. Shi served as the investment manager of Providence Equity Partners L.L.C. from May 2012 to January 2014, during which she was responsible for private equity fundraising. Ms. Shi served as the financial analyst at the telecommunications, media and technology group at the Investment Banking Division of Goldman Sachs Group, Inc. in London from June 2010 to March 2012, during which she was primarily responsible for provision of investment banking services in the European markets.

Ms. Shi obtained a master's degree in literature and a bachelor's degree in physics from Oxford University in the United Kingdom in September 2013 and July 2011, respectively.

Ms. Shi obtained the Fund Practitioners Qualification Certificate (基金從業資格證書) from the Asset Management Association of China (中國證券投資基金業協會) on April 2017.

Mr. Ying Kejing (應可靖), aged 48, was appointed as our independent non-executive director with effect from the [**REDACTED**]. He is primarily responsible for providing independent advice on the operation and management of our Group. Mr. Ying has more than 20 years of experience in the auditing, investment and consulting industry.

Since January 2017, Mr. Ying has been the partner of Shanghai Yage Investment Management Co, Ltd. (上海亞格投資管理有限公司), primarily responsible for business development and investment management of data center business. Mr. Ying served as the partner of KTB Financial Group (currently known as DAOL Financial Group) and the partner of Beijing Fuho Investment Management Center (Limited Partnership) (北京富匯投資管理中心(有限合夥)) from May 2009 to January 2012, during which he was responsible for equity fundraising.

Mr. Ying graduated from Shanghai Jiaotong University (上海交通大學) in Shanghai, the PRC in July 1997, with a dual bachelor's degree in accounting and computering. Mr. Ying further obtained a master's degree in business administration from University of Michigan in Michigan, the United States, in May 2005. Mr. Ying has been qualified as a Certified Public Accountant in the PRC since June 2010.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The table below illustrates the composition of the senior management of our Company.

Name	Age	Position(s)	Date of appointment as senior management	Time of joining our Group	Roles and responsibilities
Mr. Wu Yuening (吳悅寧)	39	Chief executive officer	April 2015	April 2015	Responsible for overall management, strategic planning, business and daily operations of our Group
Mr. Guo Huibo (郭惠波)	38	Co-chief executive officer	January 2017	January 2017	Responsible for overall financial management, legal and human resources management and international business management of our Group
Ms. Shu Yanfang (舒豔芳)	40	Executive Director and vice president	August 2019	August 2015	Responsible for managing business development and expansion of our Group
Ms. Peng Yao (彭瑤)	36	Executive Director and vice president	August 2019	June 2016	Responsible for overall merchandise management of our Group
Mr. Chen Shixin (陳世欣)	36	Executive Director and business systems specialist	April 2016	April 2016	Responsible for business information technology system of our Group
Mr. Liu Peng (劉鵬)	43	Director of supply chain	April 2020	April 2020	Responsible for coordination of our supply chain management
Mr. Zhang Liwei (張力維)	45	Chief financial officer	March 2021	March 2021	Responsible for overall financial management, capital markets and investment activities of our Group

Name	Age	Position(s)	Date of appointment as senior management	Time of joining our Group	Roles and responsibilities
Mr. Zhao Yanchao (趙延超)	41	Head of human resources	April 2020	April 2020	Responsible for human resources management
Mr. Huang Zhaohui (黃朝暉)	30	Head of Information Technology	May 2015	May 2015	Responsible for the overall management of our technology center

For the biographical details of Mr. Wu, Mr. Guo, Ms. Shu Yanfang, Ms. Peng Yao and Mr. Chen Shixin, please refer to the paragraph headed "– Board of Directors – Executive Directors" above.

Mr. Liu Peng (劉鵬), aged 43, was appointed as the director of supply chain of our Group in April 2020, primarily responsible for the coordination of our supply chain management. Prior to joining our Group, Mr. Liu served as the director of supply chain management of SainStore Inc. (廣東尚睿網路技術有限公司) from September 2018 to November 2019. Prior to that, Mr. Liu was the deputy director of the procurement and sales department at Shenzhen Fenqile Internet Technology Co., Ltd. (深圳市分期樂網絡科技有限公司), the e-commerce channel of Lexin Fintech Holdings Ltd. (a company listed on NASDAQ (NASDAQ ticket: LX)). Mr. Liu also served as the manager at Beijing Jingdong Century Trading Co., Ltd. (北京京東世紀貿易有限公司), during which he was responsible for operational management management of major appliances. Prior to joining Beijing Jingdong Century Trading Co., Ltd., Mr. Liu worked at Huawei Technologies Co., Ltd. (華為科技有限公司).

Mr. Liu obtained a bachelor's degree in mechanical and electrical engineering from Northwest Institute of Light Industry (西北輕工業學院) (currently known as Shaanxi University of Science & Technology (陝西科技大學)) in Xian, Shaanxi Province, the PRC in July 2002.

Mr. Zhang Liwei (張力維), aged 45, was appointed as chief financial officer of our Group in March 2021, primarily responsible for overall financial management, capital markets and investment activities of our Group. Prior to joining our Group, Mr. Zhang served as the chief financial officer of Yoyi Digital Inc. from May 2019 to January 2021, primarily responsible for financial management and capital markets of the company. Mr. Zhang also worked at Macquarie Capital and Hongkong and Shanghai Banking Corporation prior to joining Yoyi Digital Inc., primarily responsible for providing investment banking services.

Mr. Zhang obtained a bachelor's degree in economics from London School of Economics and Political Science in London, United Kingdom in July 2002.

Mr. Zhao Yanchao (趙延超), aged 41, was appointed as the head of human resources of our Group since April 2020. Mr. Zhao is primarily responsible for human resources management. Prior to joining our Group, Mr. Zhao worked in the field of human resources at Huawei Technologies Co., Ltd. (華為科技有限公司) from November 2015 to November 2019. Prior to joining Huawei Technologies Co., Ltd., Mr. Zhao worked at ZMKS International Cancer Therapy Biotechnologies Co., Ltd. (深圳市中美康士生物科技有限公司).

Mr. Zhao obtained a bachelor's degree in labour and social security from Hefei University of Technology (合肥工業大學) in Hefei, Anhui Province, the PRC in June 2006.

Mr. Huang Chaohui (黃朝暉), aged 30, was appointed as the head of information technology of our Group since May 2015, being primarily responsible for the overall management of our technology center. Prior to joining our Group, Mr. Huang worked at Guangdong Shidai Interconnection Technology Co., Ltd. (廣東時代互聯科技有限公司), a company principally engaged in software business, as manager of PHP (Hypertext Preprocessor) from December 2014 to May 2015.

Mr. Huang obtained a diploma in software technology from Neusoft Institute Guangdong (廣東東軟學院) in Guangdong, the PRC in June 2015.

Interests of our Directors and Senior Management

Save as disclosed above, each of our Directors and the members of our senior management (i) had no other relationship with any Directors or members of our senior management as of the Latest Practicable Date; and (ii) did not hold any other directorship of any public company, the securities of which are listed on any securities market in Hong Kong or overseas during the three years immediately preceding the Latest Practicable Date.

As of the Latest Practicable Date, save as disclosed in the section headed "Statutory and General Information – Further Information about Our Directors and Substantial Shareholders" in Appendix IV to this document, none of our Directors held any interest in the Shares which would be required to be disclosed pursuant to the meaning of Part XV of the SFO.

Save as disclosed above, there are no other matters in respect of each of our Directors and the members of our senior management that are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there are no other material matters relating to our Directors and the members of our senior management that need to be brought to the attention of our Shareholders.

Save as disclosed above and in the section headed "Relationship with the Single Largest Shareholders Group" in this document, as of the Latest Practicable Date and so far as our Directors are aware, none of our Directors had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of our Group, which would require disclosure under Rule 8.10 of the Listing Rules.

JOINT COMPANY SECRETARIES

Ms. He Pingping (何萍萍), was appointed as the joint company secretary of our Group on September 20, 2021. Ms. He joined our Group in July 2018 as the manager of our legal and compliance department, where she was responsible for the daily legal and compliance operation and matters related to corporate governance. Since June 2021, Ms. He has served as the head of strategic investment department, where she has been primarily responsible for the legal matters in relation to the investment and financing activities of our Group.

Ms. He graduated from Wuzhou University (梧州學院) in Wuzhou, Guangxi Zhuang Autonomous Region, the PRC with a bachelor's degree in law in June 2018.

Ms. Ko Mei Ying (高美英), was appointed as the joint company secretary of our Group on June 30, 2022. She is a senior manager of Corporate Services of Tricor Services Limited, a global professional services firm specializing in integrated business corporate and investor services. Ms. Ko has over 10 years of experience in corporate secretarial, auditing and accounting services. She is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute and a Certified Practising Accountant of CPA Australia. Ms. Ko holds a master of science in professional accounting and corporate governance from City University of Hong Kong, and a bachelor's degree of commerce majoring in Accounting from Macquarie University in Australia. Ms. Ko has been providing corporate secretarial and compliance serves to several listed companies on the Stock Exchange.

BOARD COMMITTEES

Our Board have established the Audit Committee, the Remuneration Committee and the Nomination Committee. The committees operate in accordance with the terms of references established by our Board.

Audit Committee

We have established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The Audit Committee consists of three Directors, namely Mr. Ying Kejing, Ms. Shi Meng and Mr. Yu Jianfeng. Mr. Ying Kejing is the chairperson of the Audit Committee who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit Committee are to review and oversee the the financial reporting process, internal control and risk management systems of our Group and the audit process, provide advice and comments to our Board and performing other duties and responsibilities as assigned by our Board.

Remuneration Committee

We have established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The Remuneration Committee consists of three Directors, namely Ms. Shi Meng, Mr. Wu and Mr. Ying Kejing. Ms. Shi Meng is the chairperson of the Remuneration Committee. The primary duties of the Remuneration Committee include, but are not limited to (i) making recommendations to the Board on our remuneration policy and structure for our Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy concerning such remuneration; (ii) determining the specific remuneration packages of each Director and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Board from time to time.

Nomination Committee

We have established the Nomination Committee with written terms of reference in compliance with the Corporate Governance Code to the Listing Rules. The Nomination Committee consists of three Directors, namely Mr. Wu, Ms. Shi Meng and Mr. Ying Kejing. Mr. Wu is the chairperson of the Nomination Committee. The primary duties of the Nomination Committee include, but are not limited to (i) reviewing the structure, size and composition of the Board on a regular basis, assessing the independence of independent non-executive Directors; (ii) overseeing the process for evaluating the performance of the Board; and (iii) making recommendations to the Board on matters relating to the appointment, re-appointment and removal of our Directors.

CORPORATE GOVERNANCE

Our Company is committed to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. To accomplish this, our Company intends to comply with all code provisions under the Corporate Governance Code set out in Appendix C1 to the Listing Rules after the Listing save for the deviation from the code provision C.2.1 of the Corporate Governance Code.

Pursuant to code provision C.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Wu is the chairman of our Board and the chief executive officer of our Company. In view of the fact that Mr. Wu is the founder of our Group and has been managing and operating our Group since April 2015, our Board believes that Mr. Wu should continue to assume the responsibilities of the chief executive officer of our Company upon [**REDACTED**] as this arrangement will improve the efficiency of our decision-making and execution process and provide strong and consistent leadership to our Group. Further, our Company has put in place an appropriate check-and-balance mechanism through our Board and our independent non-executive Directors. In light of the above, our Board considers that the deviation from Code provision C.2.1 of the Corporate Governance Code is appropriate in the circumstances of our Group.

BOARD DIVERSITY

We have adopted the board diversity policy which sets out the objective and approach for achieving and maintaining diversity of the Board in order to enhance its effectiveness. In accordance with the board diversity policy, the Company seeks to achieve board diversity by taking into account a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and/or length of service.

Our Directors have an appropriate mix of gender, knowledge and skills, including overall management and strategic development, information technology, laws, accounting and banking. They obtained degrees in various majors including accountancy, business administration and engineering. We have three independent non-executive Directors with different industry backgrounds, representing more than one third of the members of our Board. Furthermore, our Board has a wide range of age, ranging from 35 years old to 47 years old. We have also taken, and will continue to take, steps to promote gender diversity at all levels of our Company, including but without limitation, on our Board. In particular, upon the [**REDACTED**], three of our nine board members are female. Taking into account our existing business model and specific needs, as well as the different backgrounds of our Directors, the composition of our Board satisfies our board diversity policy.

Upon the [**REDACTED**], the Nomination Committee will from time to time (i) discuss and agree on expected goals to ensure board diversity, and (ii) review the board diversity policy to ensure its continued effectiveness. The Company will (i) disclose the biographical details of each Director and (ii) disclose the board diversity policy and its implementation in its annual corporate governance report.

WAIVERS GRANTED BY THE STOCK EXCHANGE

Management presence

We have applied to the Stock Exchange for, and the Stock Exchange [has agreed] to grant a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules in relation to the requirement of management presence in Hong Kong.

Joint Company Secretaries

We have also applied to the Stock Exchange for, and the Stock Exchange [has agreed] to grant a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules in relation to the requirement of company secretaries.

For details of the waivers, please refer to the section headed "Waivers from Strict Compliance with the Listing Rules" in this document.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive remuneration, including salaries, allowances, discretionary bonus and other benefits in kind, including our contributions to the retirement schemes. The remuneration of our Directors is determined based on each Director's responsibilities, qualification, position and seniority. For further information about our Directors, including the particulars of their service contracts or letters of appointment and remuneration, and details of the interests of the Directors in the Shares (within the meaning of Part XV of the SFO), please refer to the section headed "Statutory and General Information – Further Information about Our Directors and Substantial Shareholders – 2. Particulars of Service Contracts and Letters of Appointment" in Appendix IV to this document for further information.

The aggregate amount of remuneration (including basic salaries, other allowances and benefits in kind, contributions to pension plans and discretionary bonus) for our Directors for the three years ended December 31, 2020, 2021 and 2022 and for the ten months ended October 31, 2023 was approximately RMB3.70 million, RMB4.30 million, RMB4.13 million and RMB3.58 million, respectively. None of our Directors waived any remuneration during the aforesaid periods. The five highest paid individuals for the three years ended December 31, 2020, 2021 and 2022 and for the ten months ended October 31, 2023 included two, two, two and two Directors, respectively. The aggregate amount of remuneration (including basic salaries, other allowances and other benefits in kind, contributions to retirement schemes and discretionary bonus) we paid to the remaining three, three and three highest paid individuals for the three years ended December 31, 2020, 2021 and 2022 and for the ten months ended October 31, 2023 was approximately RMB2.72 million, RMB3.67 million, RMB4.15 million and RMB2.55 million, respectively, which included the aggregate contributions we paid to retirement schemes for the remaining three, three, three and three highest paid individuals in respect of the three years ended December 31, 2020, 2021 and 2022 and for the ten months ended October 31, 2023 of approximately RMB7.00 thousand, RMB0.11 million, RMB0.13 million and RMB0.12 million, respectively.

During the Track Record Period, 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 loss of office during the Track Record Period.

For further information on our Directors' remuneration during the Track Record Period as well as information on the five highest paid individuals, please see Notes 8 and 9 of the Accountants' Report set out in Appendix I to this document.

Save as disclosed above in this section and the sections headed "Financial Information," "Appendix I – Accountants' Report" and "Appendix IV – Statutory and General Information" in this document, no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Group.

COMPLIANCE ADVISOR

We have appointed Somerley Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Our compliance advisor will provide us with guidance and advice as to compliance with the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will, amongst other things, advise our Company in the following circumstances:

- before the publication of any regulatory announcement, circular, or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- 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, development or results of our Group deviate from any forecast, estimate or other information in this document; and
- where the Stock Exchange makes an inquiry to our Company under Rule 13.10 of the Listing Rules.

The term of appointment of our compliance advisor 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**].

CONFIRMATION FROM OUR DIRECTORS

Rule 3.09D of the Listing Rules

Each of our Directors confirms that he or she (i) has obtained the legal advice referred to under Rule 3.09D of the Listing Rules in September 2021, May 2022 or January 2023 (as applicable), and (ii) understands his or her obligations as a director of a listed issuer on the Stock Exchange under the Listing Rules.

Rule 3.13 of the Listing Rules

Each of the independent non-executive Directors confirms (i) his/her independence as regards each of the factors referred to in Rules 3.13(1) to (8) of the Listing Rules, (ii) that he/she has no past or present financial or other interest in the business of the Company or its subsidiaries or any connection with any core connected person of the Company under the Listing Rules as of the Latest Practicable Date, and (iii) that there are no other factors that may affect his/her independence at the time of his/her appointments.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware as of the Latest Practicable Date, immediately following the completion of 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:

		As of the Latest Practicable Date(8)		**Shares held immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised)**	
Name of shareholder	**Nature of interest**	**Number of Shares held**	**Approximate shareholding percentage**	**Number of Shares held**	**Approximate shareholding percentage**
Mr. Wu(1)	Interest in controlled corporation; Interest held jointly with other persons	[247,066,475]	[28.39]%	[REDACTED]	[REDACTED]
Mr. Guo(1)	Interest in controlled corporation; Interest held jointly with other persons	[247,066,475]	[28.39]%	[REDACTED]	[REDACTED]
MOGR(1)	Beneficial owner	[208,907,800]	[24.00]%	[REDACTED]	[REDACTED]
Starlight(1)	Beneficial owner	[38,158,675]	[4.39]%	[REDACTED]	[REDACTED]
Mr. Liang Jie (梁捷)(2)	Founder of a discretionary trust	[182,739,400]	[21.00]%	[REDACTED]	[REDACTED]
TMF (Cayman) Ltd(2)	Trustee	[182,739,400]	[21.00]%	[REDACTED]	[REDACTED]
Verticillata Inc.(2)	Interest in controlled corporation	[182,739,400]	[21.00]%	[REDACTED]	[REDACTED]
Diligent Shine Inc.(2)	Interest in controlled corporation	[182,739,400]	[21.00]%	[REDACTED]	[REDACTED]
KK Brothers(2)	Beneficial owner	[182,739,400]	[21.00]%	[REDACTED]	[REDACTED]
Mr. Yu Yongfu (俞永福)(3)	Interest in controlled corporation	[85,980,375]	[9.88]%	[REDACTED]	[REDACTED]
MF New World Investment Limited(3)	Interest in controlled corporation	[85,980,375]	[9.88]%	[REDACTED]	[REDACTED]
RD Glocal Fund LP(3)	Interest in controlled corporation	[85,980,375]	[9.88]%	[REDACTED]	[REDACTED]
Alibaba.com Singapore Investment Holding Private Limited(3)	Interest in controlled corporation	[85,980,375]	[9.88]%	[REDACTED]	[REDACTED]
Redefine Capital Management Company Limited(3)	Interest in controlled corporation	[85,980,375]	[9.88]%	[REDACTED]	[REDACTED]
eWTP(3)	Beneficial owner	[85,980,375]	[9.88]%	[REDACTED]	[REDACTED]
KK Evergreen Holdings Co., Ltd.(4)	Nominee for another person	[66,433,375]	[7.63]%	[REDACTED]	[REDACTED]
Futu Trustee Limited(4)	Trustee	[66,433,375]	[7.63]%	[REDACTED]	[REDACTED]
Mr. Zuo Lingye (左淩燁)(5)	Interest in controlled corporation	[65,431,700]	[7.52]%	[REDACTED]	[REDACTED]
Matrix(5)	Interest in controlled corporation	[65,431,700]	[7.52]%	[REDACTED]	[REDACTED]
Ningbo Matrix Investment Management Co., Ltd. (寧波矩陣投資管理有限公司)(5)	Interest in controlled corporation	[65,431,700]	[7.52]%	[REDACTED]	[REDACTED]

		As of the Latest Practicable Date[(8)]		Shares held immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised)	
Name of shareholder	Nature of interest	Number of Shares held	Approximate shareholding percentage	Number of Shares held	Approximate shareholding percentage
Shanghai Weili Enterprise Management Consulting Partnership (Limited Partnership) (上海緯礪企業管理諮詢合夥企業(有限合夥))(5)	Beneficial owner	[65,431,700]	[7.52]%	[REDACTED]	[REDACTED]
Mr. Ruigang Li (黎瑞剛)(6)	Interest in controlled corporation	[59,288,900]	[6.81]%	[REDACTED]	[REDACTED]
Brilliant Spark Holdings Limited(6)	Interest in controlled corporation	[59,288,900]	[6.81]%	[REDACTED]	[REDACTED]
LeBonheur Holdings Ltd.(6)	Interest in controlled corporation	[59,288,900]	[6.81]%	[REDACTED]	[REDACTED]
LaConfiance Investments Ltd.(6)	Interest in controlled corporation	[59,288,900]	[6.81]%	[REDACTED]	[REDACTED]
CMC Capital Partners GP III, Ltd.(6)	Interest in controlled corporation	[59,288,900]	[6.81]%	[REDACTED]	[REDACTED]
CMC Krypton GP, L.P.(6)	Interest in controlled corporation	[59,288,900]	[6.81]%	[REDACTED]	[REDACTED]
CMC Krypton, L.P.(6)	Interest in controlled corporation	[54,795,475]	[6.30]%	[REDACTED]	[REDACTED]
CMC Krypton(6)	Beneficial owner	[54,795,475]	[6.30]%	[REDACTED]	[REDACTED]
CMC Krypton II, L.P.(6)	Interest in controlled corporation	[4,493,425]	[0.52]%	[REDACTED]	[REDACTED]
CMC II(6)	Beneficial owner	[4,493,425]	[0.52]%	[REDACTED]	[REDACTED]

Notes:

(1) MOGR is wholly owned by Mr. Wu and Starlight is wholly owned by Mr. Guo. Mr. Wu and Mr. Guo, have been acting in concert in relation to the exercise of their voting rights in our Company at the meetings of the Shareholders and the Board in respect of the matters of our Group since January 2017 when Mr. Guo joined our Group. To record such concert parties relationship, on September 23, 2021, Mr. Wu and Mr. Guo entered into the Concert Parties Confirmation, pursuant to which Mr. Wu and Mr. Guo confirmed, among other things, that they (together with their respective wholly-owned investment holding companies) have been acting in concert in respect of the matters of our Group with each other since January 2017, and would continue to act in the same manner until the date when the Concert Parties Confirmation is amended or terminated by mutual consent of the parties thereto. By virtue of the SFO, each of Mr. Wu and Mr. Guo together with their respective controlled corporation (being MOGR and Starlight) is deemed to be interested in the total Shares held by MOGR and Starlight.

(2) KK Brothers is wholly owned by Diligent Shine Inc., which is in turn wholly owned by Verticillata Inc.. Verticillata Inc. is held as to 100% by TMF (Cayman) Ltd, the trustee of the Liang Family Trust. Liang Family Trust is a trust established by Mr. Liang Jie, for the benefit of himself and his family. By virtue of SFO, each of Diligent Shine Inc., Verticillata Inc., TMF (Cayman) Ltd and Mr. Liang Jie is deemed to be interested in the Shares held by KK Brothers.

(3) The general partner of eWTP is Redefine Capital Management Company Limited, which is wholly owned by MF New World Investment Limited. MF New World Investment Limited is owned as to 100% by Mr. Yu Yongfu (俞永福), an Independent Third Party. In addition, each of RD Glocal Fund LP and Alibaba.com Singapore Investment Holding Private Limited holds approximately 33.33% and 54.17% in eWTP, respectively. By virtue of SFO, each of Redefine Capital Management Company Limited, RD Glocal Fund LP, Alibaba.com Singapore Investment Holding Private Limited, MF New World Investment Limited and Mr. Yu Yongfu is deemed to be interested in the Shares held by eWTP.

(4) Futu Trustee Limited is the sole shareholder of KK Evergreen Holdings Co., Ltd., a nominee to hold 2,657,335 underlying Shares in respect of the RSU to be granted under the RSU Scheme. See subsection headed "Appendix IV – Statutory and General Information – RSU Scheme" for details.

(5) Shanghai Weili Enterprise Management Consulting Partnership (Limited Partnership) (上海緯礪企業管理諮詢合夥企業(有限合夥)) ("**Shanghai Weili**") is a limited partnership registered in the PRC, whose general partner is Ningbo Matrix Investment Management Co., Ltd. (寧波矩陣投資管理有限公司) ("**Ningbo Matrix**") and Ningbo Matrix is held as to 90% by Mr. Zuo Lingye, an Independent Third Party. In addition, Matrix holds approximately 99.994% in Shanghai Weili. By virtue of SFO, each of Ningbo Matrix, Matrix and Mr. Zuo Lingye is deemed to be interested in the Shares held by Shanghai Weili.

(6) Each of CMC Krypton and CMC II is a limited liability company incorporated in the Cayman Islands. CMC Krypton is owned as to 100% by CMC Krypton, L.P. and CMC II is owned as to 100% by CMC Krypton II, L.P. respectively. The general partner of each of CMC Krypton, L.P. and CMC Krypton II, L.P. is CMC Krypton GP, L.P. CMC Krypton GP, L.P., is a limited partnership registered in the Cayman Islands whose general partner is CMC Capital Partners GP III, Ltd., a limited liability company wholly owned by LaConfiance Investments Ltd. LaConfiance Investment Ltd. is wholly owned by LeBonheur Holdings Ltd., which is in turn wholly owned by Brilliant Spark Holdings Limited. Brilliant Spark Holdings Limited is wholly owned by Mr. Ruigang Li, an Independent Third Party. By virtue of SFO, (i) each of CMC Krypton L.P., CMC Krypton GP, L.P., CMC Capital Partners GP III, Ltd., LaConfiance Investments Ltd., LeBonheur Holdings Ltd., Brilliant Spark Holdings Limited and Mr. Ruigang Li is deemed to be interested in the Shares held by CMC Krypton; and (ii) each of CMC Krypton II, L.P., CMC Krypton GP, L.P., CMC Capital Partners GP III, Ltd., LaConfiance Investments Ltd., LeBonheur Holdings Ltd., Brilliant Spark Holdings Limited and Mr. Ruigang Li is deemed to be interested in the Shares held by CMC II.

(7) Assuming all Preferred Shares are converted into Shares on a one to one basis.

(8) Figures above have been adjusted assuming Share Subdivision has been completed.

Save as disclosed above, our Directors are not aware of any persons who will, immediately following completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised), have interests or short positions in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange 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 any other member of our Group. We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

SHARE CAPITAL

The following is a description of our authorized and issued share capital in issue and to be issued as fully paid or credited as fully paid immediately before and following the completion of the [**REDACTED**].

As of the Latest Practicable Date, our authorised share capital (assuming the Share Subdivision has been completed) was US$[50,000] divided into [12,500,000,000] Shares with par value of US$0.000004 each, of which (i) [275,174,200] voting ordinary Shares, (ii) [66,433,375] Non-voting Ordinary Shares, (iii) [10,036,550] Series Seed Preferred Shares, (iv) [47,871,675] Series A Preferred Shares, (v) [59,205,225] Series B Preferred Shares, (vi) [146,038,750] Series C Preferred Shares (vii) [34,670,050] Series Pre-D Preferred Shares, (viii) [45,738,800] Series D Preferred Shares, (ix) [101,320,600] Series E Preferred Shares and (x) [83,877,225] Series F Preferred Shares are issued and fully paid up.

Each voting ordinary Share, Non-voting Ordinary Share, Series Seed Preferred Share, Series A Preferred Share, Series B Preferred Share, Series C Preferred Share, Series Pre-D Preferred Share, Series D Preferred Share, Series E Preferred Share and Series F Preferred Share will be converted into ordinary Share on a one-to-one basis by way of re-designation immediately prior to the completion of the [**REDACTED**].

Assuming the [**REDACTED**] is not exercised, the share capital of our Company immediately following the completion of the [**REDACTED**] will be as follows:

	Number of Shares	Aggregate nominal value of Shares
		(US$)
Shares in issue as of the date of this document	[870,366,450]	[3,481.4658]
Shares to be issued under the [**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Total	[**REDACTED**]	[**REDACTED**]

Assuming the [**REDACTED**] is exercised in full, the share capital of our Company immediately following the completion of the [**REDACTED**] will be as follows:

	Number of Shares	Aggregate nominal value of Shares
		(US$)
Shares in issue as of the date of this document	[870,366,450]	[3,481.4658]
Shares to be issued under the [**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Total	[**REDACTED**]	[**REDACTED**]

ASSUMPTIONS

The above table assumes that the [**REDACTED**] becomes unconditional and Shares are issued pursuant to the [**REDACTED**]. It takes no account of any Shares which may be allotted and repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below or otherwise.

RANKINGS

The [**REDACTED**] are Shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued (including all Preferred Shares to be re-designated into Shares immediately prior to the completion of the [**REDACTED**]) and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document.

POTENTIAL CHANGES TO SHARE CAPITAL

Circumstances under which general meetings are required

Pursuant to the Cayman Islands Companies Act and the terms of the Memorandum and the Articles, our Company may from time to time by Shareholders' ordinary resolution (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Islands Companies Act reduce our share capital or capital redemption reserve by our Shareholders passing a special resolution. For details, see "Summary of the Constitution of the Company and Cayman Islands Company Law – Articles of Association – 2.4 Alteration of capital" in Appendix III to this document.

Pursuant to the Cayman Islands Companies Act and the terms of the Memorandum and the Articles, all or any of the special rights attached to the Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares. For details, see "Summary of the Constitution of the Company and Cayman Islands Company Law – Articles of Association – 2.3 Variation of rights of existing shares or classes of shares" in Appendix III to this document.

Further, our Company will also hold general meetings from time to time as may be required under the Articles, a summary of which is set out in the section headed "Summary of the Constitution of the Company and Cayman Islands Company Law" in Appendix III to this document.

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 the Shares with an aggregate nominal value of not more than the sum of:

- 20% of the aggregate nominal value of our share capital in issue immediately following the completion of the [**REDACTED**]; and

- the aggregate nominal value of our share capital repurchased by us (if any) under the general mandate to repurchase Shares referred to below in this section.

This general mandate to issue Shares will expire at the earliest 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 expiration of the period within which the next annual general meeting of our Company is required under any applicable laws of the Cayman Islands or the Memorandum and the Articles to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

Particulars of this general mandate to allot, issue and deal with Shares are set forth under "Statutory and General Information – 3. Resolutions of Our Shareholders" in Appendix IV to this document.

General mandate to repurchase Shares

Subject to the [**REDACTED**] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all our powers to repurchase our own Shares on the Stock Exchange or on any other stock exchange on which our Shares may be [**REDACTED**] with a total nominal value of not more than [**REDACTED**]% of the aggregate nominal value of our share capital in issue immediately following the completion of the [**REDACTED**] (excluding any Shares which may be issued pursuant to the exercise of the [**REDACTED**]).

This repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are [**REDACTED**] (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in "Statutory and General Information – 3. Resolutions of Our Shareholders" in Appendix IV to this document.

The general mandate to repurchase Shares will expire at the earliest 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 expiration of the period within which the next annual general meeting of our Company is required by any applicable laws of the Cayman Islands or the Memorandum and the Articles to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

RSU Scheme

Our Board approved and adopted the RSU Scheme on June 23, 2021. For further details, please see the section headed "Statutory and General Information – RSU Scheme" in Appendix IV in this document.

You should read the following discussion and analysis of our Group's financial condition and results of operations in conjunction with our audited consolidated financial statements as of and for each of the years ended December 31, 2020, 2021 and 2022 and for the ten months ended October 31, 2023, including notes set forth in the Accountants' Report in Appendix I to this document (the "Historical Financial Information"). Our Historical Financial Information has been prepared in accordance with the HKFRSs. You should read the whole Accountants' Report and not merely rely on the information contained in this section.

This discussion contains forward-looking statements that reflect our current view 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 factors that we believe are appropriate under the circumstances. However, our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors", "Forward-looking Statements" and elsewhere in this document.

OVERVIEW

We were one of the top three offline-driven non-grocery retailers for lifestyle products in China by GMV in 2022, according to the Frost & Sullivan Report. The market size of the offline-driven non-grocery retail in China reached RMB268.5 billion, accounting for 6.6% of the overall market size of the lifestyle product retail market in China by GMV in 2022.

As of the Latest Practicable Date, there were 800 stores covering 31 provinces in China and 34 cities in Indonesia under four self-incubated retail brands, namely KKV, THE COLORIST, X11 and KK Guan. Our product portfolio covers all major core consumption categories, including beauty, pop toys, food and beverage, household products and stationery.

Over the years, we have capitalized on market opportunities by rolling out our current four retail brands, namely, KKV, THE COLORIST, X11 and KK Guan, and new product offerings to our end customers, thereby enabling us to access and retain a wide range of customers and further solidify our sources of revenue. Leveraging our merchandise selection capability, we offer consumers various lifestyle products of over 20,000 SKUs across 11 major categories under our four retail brands, covering all major core lifestyle products categories including beauty, pop toys, food and beverage, household, and stationery, facilitating an effective reach to wide consumer spectrum.

We are devoted to continuously optimizing our merchandise collection, brand positioning and site selection, through which, we have managed to successfully foster consumer trust and loyalty that further contributes to our long-term competitiveness. With accumulated customer visits to our retail brands, we have successfully established public recognition of our brand value, namely an offline-driven non-grocery retailer for lifestyle products embodied in satisfying shopping experiences. Leveraging our market influence, we believe that we are able to maintain a lasting connection between our brands and customers, further promoting our consistent growth.

During the Track Record Period, our total revenue increased from RMB1.6 billion in 2020 to RMB3.5 billion in 2021 and further increased to RMB3.6 billion in 2022, representing a CAGR of 46.8% from 2020 to 2022; our revenue increased from RMB3,066.5 million for the ten months ended October 31, 2022 to RMB4,769.3 million for the same period of 2023, representing an increase of 55.5%. The total number of our retail stores increased by 30.2% from 556 as of December 31, 2020 to 724 as of October 31, 2023.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands with limited liability on March 29, 2019. In preparation for the [**REDACTED**], we underwent the Reorganization, as detailed in the section headed "History, Reorganization and Corporate Structure" in this document. Following the Reorganization, our Company became the holding company of all the subsidiaries currently constituting our Group. See the Accountants' Report in Appendix I to this document for details on the basis of preparation of our financial information included herein.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The results of operations and financial condition of our Group have been and will continue to be affected by a number of factors, including those discussed below and under the section headed "Risk Factors" in this document.

Consumer Demand and Spending Power for Lifestyle Products in China

Our results of operations depend on the consumer demand for the merchandise we offer via our store network, in particular those in the product categories of beauty, pop toys, food and beverage, household, and stationery. Consumer demand and purchasing power are affected by the growth of China's economy and Chinese residents' per capita disposable income. In 2020, 2021 and 2022, China's nominal GDP grew at a rate of 2.7%, 13.4% and 5.3%, respectively, according to China's National Bureau of Statistics. During these same respective periods, the per capita disposable income of Chinese urban households grew at a rate of 3.5%, 8.2% and 3.9%, according to China's National Bureau of Statistics, and is expected to grow at a CAGR of 5.5% from 2022 to 2026, according to Frost & Sullivan. Along with the increasing per capita disposable income, China's retail market has been growing, and the trend is expected to continue. The market size of China's retail market by GMV increased from RMB37.8 trillion in 2018 to RMB44.0 trillion in 2022 representing a CAGR of 3.9% during this period and is estimated to reach RMB62.9 trillion in 2027. Whilst at the same time, the market size of China's offline-driven non-grocery retail by GMV increased from RMB205.5 billion to RMB268.5 billion from 2018 to 2022, representing a CAGR of 6.9% during this period and is estimated to reach RMB655.5 billion in 2027, according to Frost & Sullivan.

We believe that the increase in per capita disposable income growth will be accompanied by growth in purchasing power of consumers to spend on the types of merchandise we offer via our store network. See "Industry Overview — Overview of Offline-driven Non-grocery Retail Market in China — Market Drivers and Trends."

Merchandise Offerings and Average Spending per Transaction

In order to cater to a broad consumer base and provide comprehensive shopping experiences, we believe it is necessary to provide a wide range of merchandise covering different categories such as beauty, pop toys, food and beverage, household products and stationery, while maintaining a competitive pricing strategy appealing to our new and existing customers. According to Frost & Sullivan, the key factor behind an integrated retailer's ability to attract customers is the wide range of products it offers, as customers tend to return to stores where they are given a variety of choices to satisfy their demand and to fulfill their desire to try out the latest products in the market.

Our profitability is dependent in part upon our success in adjusting and refreshing our merchandise portfolio to respond to customer preferences and demands, which may change or evolve over time. We constantly adjust and refresh the mix of merchandise portfolio in our retail stores to attract new customers, and at the same time retain the loyalty of our existing customers.

Our results of operations can be significantly affected by changes in our customers' average spending per transaction. The average spending per transaction serves as an indicator of the customers' expenditure from our retail channels and may be affected by our merchandise portfolio, pricing, and customer preferences.

Breadth and Structure of Our Store Network

We see our extensive store network as an indispensable asset that lays the foundation for us to continuously drive our business growth. To prudently expand and persistently optimize the breadth and depth of our store network, we constantly look for attractive locations for our self-owned stores and resourceful partners for franchise stores. During the Track Record Period, the number of our retail stores increased from 556 stores as of December 31, 2020 to 724 as of October 31, 2023. In particular, during the same period, our self-owned stores increased from 132 stores as of December 31, 2020 to 615 stores as of October 31, 2023. Leveraging our brand value in China and industry experience, we believe that we can further broaden our consumer base and expand our market share in the current market. For details of our store network, see "Business — Our Business Model — Our Retail Store Network."

We are committed to expand and operate our stores nationwide, while at the same time we also focus on selected cities with promising economic growth. Furthermore, in line with our business development strategies and brand positioning, we continuously roll out new stores in some of the most renowned shopping streets and shopping centers nationwide. For example, we have been operating our flagship stores in prestigious locations in Shanghai, Shenzhen, Chengdu, Wuhan, Chongqing, Nanjing, Xi'an, Changsha, Haikou and Shenyang during the Track Record Period.

Relationship with and Procurement from Third Party Brand Suppliers

In 2020, 2021 and 2022 and for the ten months ended October 31, 2022 and 2023, sale of third party brand merchandise accounted for 87.0%, 87.0%, 89.5%, 89.4% and 86.2%, respectively, of our total revenue generated from sale of goods. We therefore depend on Third Party Brand Suppliers to provide us with high quality merchandise for sale via our store network, although, during the Track Record Period, we did not rely heavily on any single Third Party Brand Supplier.

We believe that establishing and maintaining mutually beneficial relationships with our Third Party Brand Suppliers is essential to our success. As of December 31, 2020, 2021 and 2022 and October 31, 2023, we had 1,002, 1,496, 1,206 and 1,179 Third Party Brand Suppliers in our suppliers pool. Our ability to procure a wide array of merchandise of different popular brands is one of the pillars of success in terms of continuous growth of our business. We also believe that we benefit from the quality products we procure from our Third Party Brand Suppliers in terms of presenting a strong brand image before our customers. We evaluated and expect to continuously evaluate our brand portfolio to introduce new brands that cater to the needs of our target customers. See "Risk Factors — Risks Relating to Our Business and Industry — Failure to maintain good relationships with or secure competitive terms from brand companies may materially and adversely affect our profitability, business and prospects."

Furthermore, our profitability is affected by the pricing of the merchandise we purchase for resale, and the costs of our outsourced production. Our gross profit represents the difference between our revenue from selling the products to our customers and the cost of sales, which primarily consists of the costs of purchasing products from Third Party Brand Suppliers and the costs for procuring the merchandise produced by the OEM and ODM contractors we engage with.

We typically negotiate with our Third Party Brand Suppliers in an effort to realize more economical product procurements. The amounts of these discounts vary depending on the Third Party Brand Suppliers' brand positioning, marketing strategies, types of products, raw material prices and other costs and our bargaining power and relationship with them, among others. Our profitability is affected by the terms and conditions of our procurement agreements with Third Party Brand Suppliers. For details, please see "Business — Suppliers and Raw Materials — Third Party Brand Suppliers — Procurement Agreements with Third Party Brand Suppliers."

Costs of Manufacturing of Our Self-owned Brand Merchandise

We outsource the production of our self-owned brand merchandise to OEM and ODM contractors. In 2020, 2021 and 2022 and the ten months ended October 31, 2022 and 2023, revenue generated from sale of such merchandise represented 13.0%, 13.0%, 10.5%, 10.6% and 13.8%, respectively, of our total revenue generated from sale of goods. As a result, the increase in cost of labor, raw materials and other expenses of our OEM and ODM contractors may be transferred to us, which affects the costs of manufacturing, and the competitiveness of products under our self-owned brand. We also strive to leverage our bargaining power with the OEM and ODM contractors to control our procurement costs. Our financial performance partially depends on our ability to pass the costs of outsourced production onto our customers, and our ability to locate and effectively manage OEM and ODM contractors that can fill our orders at commercially acceptable prices with high quality. See "Risk Factors — Risks Relating to Our Business and Industry — We rely on third-party OEM and ODM contractors for the manufacturing of our self-owned brand merchandise. Our brand image and business may be negatively affected by a disruption in the supply of our OEM and ODM contractors."

Lease Expenses

We do not own any property. We lease all of our retail stores, warehouses and headquarters premises from third parties. Our leases typically have a term of three to eight years, with most of the leases providing for a renewal option if we could agree to the renewal terms and conditions with the lessor.

As of the Latest Practicable Date, we had leased 637 properties with the total GFA of 577,394.6 sq.m. in China from third parties. Our leased properties mainly serve as our offices, warehouses and self-owned retail stores. As of the same date, the total GFA of our self-owned retail stores in China was approximately 520,060.1 sq.m.. The size of our self-owned retail store typically ranges from approximately 80 sq.m. to 5,500 sq.m..

In 2020, 2021 and 2022 and for the ten months ended October 31, 2022 and 2023, our rental expenses, which equaled to the sum of (i) depreciation of right-of-use assets; (ii) interests on lease liabilities; and (iii) other rentals expenses, were approximately RMB180.7 million, RMB415.4 million, RMB548.4 million, RMB443.6 million and RMB506.7 million, representing approximately 11.0%, 11.8%, 15.4%, 14.5% and 10.6% of our total revenue, respectively.

Staff Costs

Our staff costs have a significant impact on our profitability. Our staff costs primarily include wages and salaries, sales commissions, bonuses, social security and housing fund contributions for our employees, including our sales personnel who work at self-owned stores and our management and administrative personnel. Our staff costs (including directors' emoluments) were RMB184.9 million, RMB460.0 million, RMB518.9 million, RMB422.5 million and RMB556.7 million in 2020, 2021 and 2022 and for the ten months ended October 31, 2022 and 2023, respectively, accounting for 11.2%, 13.1%, 14.6%, 13.8% and 11.7% of our total revenue during the same periods. As we continue to expand our business operations and store network, we expect that the absolute amount of our staff costs will grow in the foreseeable future. Our staff costs may also increase as we compete for talented and experienced personnel. See "Risk Factors — Risks Relating to Our Business and Industry — Our success depends on our ability to retain our senior management team and to recruit, train and retain qualified personnel."

Foreign Exchange Rates

Our Group's functional currency is Renminbi. Our results of operations are affected by the foreign exchange rates of Renminbi against other currencies, particularly the U.S. dollars and to a lesser degree, Indonesian Rupiahs. Our holding of the U.S. dollars mainly comes from [**REDACTED**] from our Company at Cayman Islands level, while our holding of Indonesian Rupiahs mainly comes from our established business in Indonesia. We would mathematically convert our foreign currencies into Renminbi when preparing our consolidated statements of profit or loss and other comprehensive income. As the foreign exchange rates of Renminbi against foreign currencies fluctuated during the Track Record Period, we recorded foreign exchange losses of RMB1.4 million and RMB14.8 million in 2020 and 2021, respectively, and recorded foreign exchange gains of RMB21.0 million, RMB23.7 million, and RMB2.8 million in 2022 and for the ten months ended October 31, 2022 and 2023, respectively.

Seasonality

Our business, financial condition and result of operations are subject to seasonal fluctuations. We usually experience higher sales volume during festival seasons and public holidays, such as Chinese New Year. In addition, our results of operations may fluctuate from period to period because of other factors, including the availability of the merchandise we can offer to our customers and weather conditions. As a result, our results of operations may fluctuate from period to period and comparison of different periods may not be meaningful.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to the accounting items. Such assumptions, estimates and judgments are made based on historical information and various other factors, including industry practices and expectations of future events we believe to be reasonable under the circumstances.

We have set forth below those accounting policies, judgments and estimates we believe most significant for the preparation of our financial statements. Other material accounting policy information, which are important for you to understand our financial condition and results of operations, are set forth in detail in note 2 and 3 to the Accountants' Report in Appendix I to this document.

Revenue Recognition

We recognize revenue when it arises from the sale of products and the provision of services. Revenue is recognized when control over the product or service is transferred to our customers' at the amount of promised consideration to which we are expected to be entitled in exchange for the satisfaction of a specific performance obligation, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. For further details, see note 2(u) to the Accountants' Report in Appendix I to this document.

Further details of our revenue and other income recognition policies are as follows:

(i) Sale of Products

(1) Retail sales in self-owned stores:

We sell lifestyle products and operate an extensive retail network of self-owned stores under four retail brands. Revenue from retail sales to customers in our self-owned stores is recognized at the point when the end customer takes possession of and pays for the products.

Operating cost associated with stores operation which mainly consist of cost of goods sold, staff costs, depreciation and amortization expense and other operating expenses. Cost of goods sold are recognized upon revenue recognition, staff costs, depreciation and amortization expense and other operating expenses are recognized when relevant service received or amortized over the beneficial period.

(2) Product sales to franchisees:

We have entered into a series of agreements with our franchisees, primarily in China, whereby the franchisees are authorized to operate franchise stores and sell, in their own retail stores, our products. For product sales to franchisees, we have determined that the franchisees are our customers. See "Business — Self-owned Stores and Franchise Stores — Franchise Stores" and "— Our Retail Store

Network." We recognize revenue from sales to franchisees at the point when they obtain legal title of the products, i.e., the time when franchisees sell products to their customers and become obliged to pay us for such products.

According to Frost & Sullivan, the revenue recognition policy with respect to sales to franchisees is in line with industry norm.

Franchisees bear the operating costs associated with stores operation when relevant service received or amortized over the beneficial period.

(ii) Sales-based Management and Consultation Service

Our franchisees are also required to pay sales-based management and consultation services for their access to such services. Sales-based management and consultation service are recognized when product sales occur.

(iii) Interest Income

Interest income is recognized as it accrues using the effective interest method.

(iv) Government Grants

Government grants are recognized in the statements of financial position initially when there is reasonable assurance that they will be received and that we will comply with the conditions attaching to them. Grants that compensate us for expenses incurred are recognized as other income in profit or loss based on the timing of when the related costs for which the grants are intended to compensate are incurred. Grants that compensate us for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Inventories

Inventories are assets which are held for sale or display, including the products placed at self-owned stores, franchise stores and our warehouses, and low value consumables to be consumed in the ordinary course of our business. Inventories are carried at the lower of cost and net realizable value. Cost of inventories is calculated using the weighted average cost formula. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Leased Assets

At inception of a contract, we assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

Where the contract contains lease components and non-lease components, we have elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

On the lease commencement date, we recognize a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets, which for us are primarily staff apartments with lease term of less than 12 months. When we enter into a lease in respect of a low-value asset, we decide whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalized are recognized as an expense on a systematic basis over the lease term.

Where the lease is capitalized, the lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortized cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognized when a lease is capitalized is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in our estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether we will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, we took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognized the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

We have elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. We recognize the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of our previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment. See note 2(k)(ii) to the Accountants' Report in Appendix I to this document.

Property, Plant and Equipment

We state property, plant and equipment at cost less accumulated depreciation and impairment losses. Construction in progress represents property and equipment under construction, which is stated of cost less any impairment losses, and is not depreciated.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Motor vehicles	Three to four years
Leasehold improvements	Over the shorter of the lease term or the estimated useful life of the asset
Office equipment	Three to five years
Store equipment, furniture and fittings	Three to 12 years

Depreciation and Amortization

Property, plant and equipment, right-of-use assets and intangible assets, are depreciated or amortized on a straight-line basis over the estimated useful lives of the assets. We review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting periods. The useful lives are based on our historical experience with similar assets. The depreciation and amortization expenses for future periods are adjusted if there are material changes from previous estimates.

Impairment of Assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets;
- intangible assets;
- goodwill;
- investment in joint ventures; and
- investment in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

Income Tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if our Company or our Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, our Company or our Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

Financial Liabilities Measured at FVTPL

Our Company and Guangdong Kuaike have issued a series of convertible redeemable preferred shares and ordinary shares with redemption option prior to and during the Track Record Period. These instruments can also be converted into our ordinary shares at any time at the option of the holders, or automatically upon occurrence of an [**REDACTED**] of our Company. For details of our equity-based financing in the past, see "History, Reorganization and Corporate Structure — Our Corporate History and Major Shareholding Changes of Our Group" and note 26 to the Accountants' Report in Appendix I to this document.

We designated our convertible redeemable preferred shares and ordinary shares with redemption option, which were level 3 financial instruments, as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized in profit or loss. The convertible redeemable preferred shares and ordinary shares with redemption option are not traded in an active market. The fair value of redemption liabilities of the ordinary shares and convertible redeemable preferred shares at each balance sheet dates were determined based on the valuation performed by an independent valuer, using valuation techniques. We use our judgments to select a variety of methods and make assumptions that are mainly based on market conditions existing at the respective valuation dates. We have used discounted cash flow to determine our business value, followed by option pricing models to determine the fair value of financial instruments with preferred rights, which involved the use of accounting estimates and judgments. See note 3(f) to the Accountants' Report in Appendix I to this document. Our convertible redeemable preferred shares are classified as non-current liabilities unless holders of the convertible redeemable preferred shares demand us to redeem the convertible redeemable preferred shares within 12 months after the end of the reporting period. Details of the fair value measurement of level 3 financial instruments, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, are set out in note 26 and 27(e)(i) of the Accountants' Report in Appendix I to this document. The Reporting Accountants have carried out their work in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for the purpose of expressing an opinion on our historical financial information for the Track Record Period as a whole.

In relation to the valuation of our level 3 convertible redeemable preferred shares and ordinary shares with redemption option, our Directors have adopted the following procedures: (i) engaged independent and competent third-party valuer to appraise the fair value of convertible redeemable preferred shares and ordinary shares with redemption option; (ii) reviewed the valuation working papers and results prepared by the valuer; (iii) carefully considered all information especially those non-market related information input, such as fair value of the ordinary shares of our Company, possibilities under different scenarios, time to liquidation and discount for lack of marketability, which require management assessments and estimates; and (iv) reviewed the valuation working papers and results prepared by the valuer.

Based on the abovementioned procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable, and the fair value measurements of level 3 convertible redeemable preferred shares in our financial statements are properly prepared.

The Sole Sponsor has taken the following due diligence steps in relation to the fair value measurement of level 3 financial instruments: (i) reviewed relevant notes in the Accountants' Report as contained in Appendix I; (ii) discussed with the Company to understand the bases of the relevant valuation; (iii) conducted an interview with the external valuer in relation to the methodology, key bases and assumptions adopted; and (iv) assessed the independence, credentials and qualifications of the external valuer. Having considered the work done by the Directors, the Reporting Accountant and the valuer and the relevant due diligence done as stated above, nothing has come to the Sole Sponsor's attention that would cause the Sole Sponsor to question the view of the Directors.

Interests in Unincorporated Franchise Stores and the Related Conversion

We have transitional arrangements with some franchisees whereby our Group invested in certain unincorporated stores in initial phase that were owned and controlled by these franchisees. According to such transitional arrangements, we contributed towards certain property, plant and equipment of the stores in return for the right to a specified percentage of the operating results in those stores. See "Business — Self-owned stores and franchise stores — Franchise Stores with Investment — Transitional Stores." We have accounted for our respective interests of assets and profits in accordance with the terms of the transitional arrangement. Our interest of assets has been included as part of our property, plant and equipment, and stated at cost less accumulated depreciation and any accumulated impairment losses.

Some of the above-mentioned stores were subsequently acquired by our subsidiaries or our joint ventures established with franchisees (the "**Conversion**"), at valuation based on the carrying amounts of respective party's interests in the stores immediately before the Conversion. When the acquiring legal entities are our subsidiaries, we have elected to apply the optional concentration test in accordance with *HKFRS 3 Business combinations* and deemed the Conversions as asset acquisitions when the test is met; when the acquiring legal entities are the joint ventures, we have initially recognized our interests in the joint ventures at the carrying amount of our share of the property, plant and equipment in the related stores immediately before the Conversion, and have subsequently applied the equity method.

For details, see "Business — Self-owned stores and franchise stores — Franchise Stores with Investment."

The table below sets forth details of our accounting treatment and presentation in our consolidated financial statements regarding transitional stores during and after the transitional arrangement.

Line Items in Our Consolidated Financial Statements	During the Transitional Arrangement	After the Transitional Arrangement	
		Becoming joint venture stores	Becoming self-owned stores
Property, plant and equipment	We contributed 50% of the initial capital expenditure in the store. We record such investment as property, plant and equipment.	N/A	We record 100% of the initial capital expenditure (deducted by the depreciation charge on the property, plant and equipment incurred during the transitional arrangement as below) as property, plant and equipment.
Depreciation charge on the property, plant and equipment	We record depreciation charge on our property, plant and equipment as selling and distribution expenses.	N/A	We record depreciation charge on 100% of our property, plant and equipment as selling and distribution expenses.
Assets (other than property, plant and equipment)	Not recorded because other than property, plant and equipment we did not make any other contribution in the store	We record our investment in the store (deducted by the depreciation charge on the property, plant and equipment incurred during the transitional arrangement as above) as investment in joint ventures.	We record 100% of store assets primarily including property, plant and equipment, right-of-use assets, and bank deposits if any as the respective line items in our consolidated statements of financial position.
Liabilities	If there is any outstanding initial capital expenditure to be paid by us, we will record such outstanding amount as trade and other payables. Other than the above outstanding amount if any, we do not record any other store liabilities.	N/A	We record 100% of the store liabilities primarily including lease liabilities and staff costs payable as the respective line items in our consolidated statements of financial position.
Sales of goods	We record 50% to 60% of GMV generated by the store as sales to franchise stores under revenue.		We record 100% of GMV generated by the store as retail sales from self-owned stores under revenue
Entitlement to transitional stores' operating results	We record 50% of the store's operating results as sales to franchise stores under revenue.	N/A	N/A
Sales-based management and consultation service income	We record no more than 10% of GMV as our sales-based management and consultation service income.		Not recorded
Selling and distribution expenses	Other than the above depreciation charge, we do not record the store's operational expenses in our consolidated statements of profit or loss.	N/A	We record 100% of the store's operational expenses as selling and distribution expenses.
Share of (losses)/profit from joint ventures	N/A	We record 50% of the net profit from the joint venture which owns and operates the stores as our share of (losses)/profit from joint ventures.	N/A

DESCRIPTION OF SELECT CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME LINE ITEMS

As of January 1, 2020, we recorded an accumulated loss of RMB640.5 million primarily due to the operating results of our retail business and fair value changes of the convertible redeemable preferred shares. The following table sets forth our select consolidated statements of comprehensive income for the years and periods indicated:

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue	**1,645,904**	**3,523,854**	**3,550,951**	**3,066,526**	**4,769,277**
Cost of sales	(1,146,191)	(2,200,332)	(2,125,422)	(1,847,956)	(2,520,227)
Gross profit	**499,713**	**1,323,522**	**1,425,529**	**1,218,570**	**2,249,050**
Other income	34,888	61,194	62,260	57,769	37,393
Selling and distribution expenses	(395,250)	(1,097,483)	(1,313,170)	(1,049,259)	(1,437,984)
Administrative and other operating expenses	(281,894)	(524,739)	(497,454)	(386,705)	(472,138)
(Loss)/profit from operations	**(142,543)**	**(237,506)**	**(322,835)**	**(159,625)**	**376,321**
Finance costs	(49,152)	(91,511)	(103,474)	(84,009)	(80,923)
Share of (losses)/profits from joint ventures	(16,170)	(32,304)	(81,689)	(71,793)	11,085
Fair value changes of financial liabilities measured at fair value through profit or loss ("**FVTPL**")	(1,842,514)	(5,356,803)	489,247	456,043	(10,013)
(Loss)/profit before taxation	**(2,050,379)**	**(5,718,124)**	**(18,751)**	**140,616**	**296,470**
Income tax	33,172	36,773	80,615	48,022	(87,044)
(Loss)/profit for the year/period	**(2,017,207)**	**(5,681,351)**	**61,864**	**188,638**	**209,426**
Attributable to:					
Equity shareholders of our Company	(2,016,324)	(5,625,587)	90,595	244,944	201,096
Non-controlling interests	(883)	(55,764)	(28,731)	(56,306)	8,330

NON-HKFRS MEASURES

To supplement our consolidated financial statements which are presented under HKFRS, we also use adjusted net loss (a non-HKFRS measure) and adjusted EBITDA (a non-HKFRS measure) as additional financial measures, which are not required by, or presented in accordance with HKFRS. We believe that such non-HKFRS measures facilitate comparisons of operating performance. We believe that such measures provide useful information to [**REDACTED**] and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. The use of such non-HKFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

We define "adjusted net loss/profit (a non-HKFRS measure)" as loss/profit for the year/period adjusted for (i) fair value changes of financial liabilities measured at FVTPL; and (ii) [**REDACTED**]. Financial liabilities measured at FVTPL consist of redemption liabilities of ordinary shares and convertible redeemable preferred shares, which will automatically convert into ordinary shares upon the [**REDACTED**]. Therefore, we do not expect to recognize any further fair value changes of financial liabilities measured at FVTPL subsequent to the [**REDACTED**]. See note 26 to the Accountants' Report in Appendix I to this document. The [**REDACTED**] were incurred related to the [**REDACTED**]. We define "adjusted EBITDA (a non-HKFRS measure)" as adjusted net loss or profit for the year/period (a non-HKFRS measure) adjusted for (i) income tax; (ii) depreciation and amortization; (iii) finance costs; and (iv) interest income. The adjustments have been consistently made during the Track Record Period.

As a result, we believe that these items should be adjusted for when calculating our adjusted net loss (a non-HKFRS measure) and adjusted EBITDA (a non-HKFRS measure) in order to provide potential [**REDACTED**] with a complete and fair understanding of our operating results, especially in making period-to-period comparisons of, and assessing the profile of, our operating and financial performance, and making comparisons with other comparable companies with similar business operations.

The following table reconciles our adjusted net loss for the year/period (a non-HKFRS measure) and adjusted EBITDA for the year/period (a non-HKFRS measure) to net (loss)/profit:

	Year Ended December 31,			**Ten Months Ended October 31,**	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** *(Unaudited)*	**RMB'000**
(Loss)/profit for the year/period	**(2,017,207)**	**(5,681,351)**	**61,864**	**184,226**	**209,426**
Adjusted for:					
Fair value changes of financial liabilities measured at FVTPL	1,842,514	5,356,803	(489,247)	(456,043)	10,013
[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Adjusted net (loss)/profit for the year/period (a non-HKFRS measure)	**(171,380)**	**(303,887)**	**(412,276)**	**(253,712)**	**229,823**

	Year Ended December 31,			**Ten Months Ended October 31,**	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** *(Unaudited)*	**RMB'000**
Adjusted net (loss)/profit for the year/period (a non-HKFRS measure)	**(171,380)**	**(303,887)**	**(412,276)**	**(253,712)**	**229,823**
Adjusted for:					
Income tax	(33,172)	(36,773)	(80,615)	(48,022)	87,044
Depreciation and amortization	222,940	472,654	655,068	512,977	588,426
Finance costs	49,152	91,511	103,474	84,009	80,923
Interest income	(30,435)	(45,064)	(18,273)	(16,345)	(11,049)
Adjusted EBITDA for the year/period (a non-HKFRS measure)	**37,105**	**178,441**	**247,378**	**278,907**	**975,167**

Revenue

During the Track Record Period, we generated revenue from (i) sale of goods, primarily comprising sales from our self-owned stores and sales to franchise stores; and (ii) sales-based management and consultation services income such as store management fees, logistics charges and POS charges to our franchisees. Our revenue was RMB1,645.9 million, RMB3,523.9 million, RMB3,551.0 million, RMB3,066.5 million and RMB4,769.3 million in 2020, 2021 and 2022 and the ten months ended October 31, 2022 and 2023, respectively. For details on how we generate our revenue from our business models, see "Business — Our Business Model — Our Retail Business Model." The continued increase in our revenue during the Track Record Period was primarily due to the increase in our sale of goods as a result of expansion of our store network during the Track Record Period. During the same period, the number of our retail stores increased from 556 stores as of December 31, 2020 to 724 stores as of October 31, 2023. For details, see "Business — Our Business Model — Our Retail Store Network."

The following table sets forth a breakdown of our revenue by source, and the contribution of each source in absolute amounts and as percentages of our total revenue for the years and periods indicated:

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Sale of goods										
Self-owned stores	581,845	35.5%	2,001,345	56.8%	2,270,520	64.0%	1,957,630	63.8%	3,726,036	78.1%
Franchise stores	946,548	57.5%	1,338,195	38.0%	970,817	27.3%	868,079	28.3%	636,694	13.4%
Online sales	25,443	1.5%	18,243	0.5%	149,766	4.2%	106,652	3.5%	273,991	5.7%
Other sales(1)	12,273	0.7%	31,966	0.9%	61,961	1.7%	54,509	1.8%	62,294	1.3%
Subtotal	**1,566,109**	**95.2%**	**3,389,749**	**96.2%**	**3,453,064**	**97.2%**	**2,986,870**	**97.4%**	**4,699,015**	**98.5%**
Sales-based management and consultation service income(2)	**79,795**	**4.8%**	**134,105**	**3.8%**	**97,887**	**2.8%**	**79,656**	**2.6%**	**70,262**	**1.5%**
Total	**1,645,904**	**100.0%**	**3,523,854**	**100.0%**	**3,550,951**	**100.0%**	**3,066,526**	**100.0%**	**4,769,277**	**100.0%**

Notes:

(1) Primarily including revenue generated from bulk purchasing business with corporate customers.

(2) Primarily including fees we charged franchisees according to store management agreements for management and consultation services, such as store management fees, logistics charges and POS charges to our franchisees.

The following table sets forth our revenue by store brand and the contribution of each brand in absolute amounts and as percentages of our total revenue for the years and periods indicated:

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
KKV	834,734	50.7%	2,235,379	63.4%	2,362,134	66.5%	2,034,247	66.3%	3,270,393	68.6%
THE COLORIST	439,729	26.7%	853,102	24.2%	598,402	16.9%	530,529	17.3%	756,307	15.9%
KK Guan	320,885	19.5%	225,775	6.4%	139,054	3.9%	126,194	4.1%	101,464	2.1%
X11	12,840	0.8%	159,389	4.5%	239,634	6.7%	214,395	7.0%	304,828	6.4%
Others(1)	37,716	2.3%	50,209	1.5%	211,727	6.0%	161,161	5.3%	336,285	7.0%
Total	**1,645,904**	**100.0%**	**3,523,854**	**100.0%**	**3,550,951**	**100.0%**	**3,066,526**	**100.0%**	**4,769,277**	**100.0%**

Note:

(1) Primarily including revenue generated from online sales and bulk purchasing business with corporate customers. See "Business — Online Sales" for details about our online sales.

The following table sets forth a breakdown of our revenue generated from sale of goods, by source of merchandise, and the contribution of each source of merchandise in absolute amounts and as percentages of our revenue generated from sale of goods for the years and periods indicated:

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Self-owned brand merchandise(1)	202,916	13.0%	439,413	13.0%	363,231	10.5%	316,807	10.6%	650,091	13.8%
Third party brand merchandise(2)	1,363,193	87.0%	2,950,336	87.0%	3,089,833	89.5%	2,670,063	89.4%	4,048,924	86.2%
Total	**1,566,109**	**100.0%**	**3,389,749**	**100.0%**	**3,453,064**	**100.0%**	**2,986,870**	**100.0%**	**4,699,015**	**100.0%**

Notes:

(1) Self-owned brand merchandise refers to merchandise we procure from OEM and ODM contractors.

(2) Third party brand merchandise refers to merchandise we procure from Third Party Brand Suppliers.

Cost of Sales

Our cost of sales, which primarily consists of our cost of procurement of inventories, either from Third Party Brand Suppliers or from OEM and ODM contractors, was RMB1,146.2 million, RMB2,200.3 million, RMB2,125.4 million, RMB1,848.0 million and RMB2,520.2 million in 2020, 2021 and 2022 and the ten months ended October 31, 2022 and 2023, respectively. The increase in our cost of sales from 2020 to 2021 was primarily due to the increased demand and sale of our merchandise in our self-owned stores and franchise stores as a result of expansion of our store network during the same periods. Our cost of sales remained relatively stable in 2022 compared to 2021.

The following table sets forth a breakdown of our cost of sales by store brand both in absolute amounts and as percentages of our total cost of sales for the years and periods indicated:

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
KKV	582,529	50.8%	1,363,946	62.0%	1,367,798	64.4%	1,202,521	65.1%	1,722,671	68.4%
THE COLORIST	289,975	25.3%	518,843	23.6%	352,379	16.6%	315,387	17.1%	363,200	14.4%
KK Guan	239,113	20.9%	182,077	8.3%	114,711	5.4%	104,048	5.6%	67,524	2.7%
X11	7,654	0.7%	90,167	4.1%	139,003	6.5%	119,457	6.5%	167,227	6.6%
Others[(1)]	26,920	2.3%	45,299	2.0%	151,531	7.1%	106,543	5.7%	199,605	7.9%
Total	**1,146,191**	**100.0%**	**2,200,332**	**100.0%**	**2,125,422**	**100.0%**	**1,847,956**	**100.0%**	**2,520,227**	**100.0%**

Note:

(1) Primarily including costs in relation to online sales and bulk purchasing.

The following table sets forth a breakdown of our cost of sales, by source of merchandise, and the contribution of each source of merchandise in absolute amounts and as percentages of our cost of sales for the years and periods indicated:

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Self-owned brand merchandise[(1)]	107,956	9.4%	217,603	9.9%	173,096	8.1%	151,841	8.2%	264,924	10.5%
Third party brand merchandise[(2)]	1,038,235	90.6%	1,982,729	90.1%	1,952,326	91.9%	1,696,115	91.8%	2,255,303	89.5%
Total	**1,146,191**	**100.0%**	**2,200,332**	**100.0%**	**2,125,422**	**100.0%**	**1,847,956**	**100.0%**	**2,520,227**	**100.0%**

Notes:

(1) Self-owned brand merchandise refers to merchandise we procure from OEM and ODM contractors.

(2) Third party brand merchandise refers to merchandise we procure from Third Party Brand Suppliers.

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less the cost of sales, and our gross profit margin represents our gross profit divided by our revenue, expressed as a percentage. Our gross profit was RMB499.7 million, RMB1,323.5 million, RMB1,425.5 million, RMB1,218.6 million and RMB2,249.1 million in 2020, 2021 and 2022 and the ten months ended October 31, 2022 and 2023, respectively, whilst our gross profit margin was 30.4%, 37.6%, 40.1%, 39.7% and 47.2% in the same years and periods, respectively. The following table sets forth our gross profit and gross profit margins by store brand for the years and periods indicated:

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
KKV	252,205	30.2%	871,433	39.0%	994,336	42.1%	831,726	40.9%	1,547,722	47.3%
THE COLORIST	149,754	34.1%	334,259	39.2%	246,023	41.1%	215,142	40.6%	393,107	52.0%
KK Guan	81,772	25.5%	43,698	19.4%	24,343	17.5%	22,146	17.5%	33,940	33.5%
X11	5,186	40.4%	69,222	43.4%	100,631	42.0%	94,938	44.3%	137,601	45.1%
Others	10,796	28.6%	4,910	9.8%	60,196	28.4%	54,618	33.9%	136,680	40.6%
Total	**499,713**	**30.4%**	**1,323,522**	**37.6%**	**1,425,529**	**40.1%**	**1,218,570**	**39.7%**	**2,249,050**	**47.2%**

The gross profit margin of our different brands fluctuated during the Track Record Period, primarily because of (i) brand portfolio upgrade; (ii) conversion of franchisee stores to self-owned stores; (iii) adoption of cost control measures; and (iv) the effects of the COVID-19 pandemic control measures in the PRC.

The gross profit margin of both KKV and THE COLORIST continued to increase during the Track Record Period. KKV had a gross profit margin of 30.2%, 39.0%, and 42.1% in 2020, 2021 and 2022, respectively. Compared to the gross profit margin of 40.9% for the ten months ended October 31, 2022, KKV had a profit margin of 47.3% for the ten months ended October 31, 2023. THE COLORIST had a gross profit margin of 34.1%, 39.2%, and 41.1% in 2020, 2021 and 2022, respectively. Compared to the gross profit margin of 40.6% for the ten months ended October 31, 2022, THE COLORIST had a profit margin of 52.0% for the ten months ended October 31, 2023. The general increase of the gross profit margin of KKV and THE COLORIST during the Track Record Period was primarily driven by (i) our enhanced economies of scale supported by continuous expansion of our store network, so that we could leverage our strengthened bargaining power for more favorable procurement costs; (ii) our continuous efforts to introduce more self-owned brand merchandise into our product portfolio, which generally carried higher gross profit margin compared to that of third party brand merchandise; (iii) our introduction of more self-owned KKV and THE COLORIST stores (which generally command higher gross profit margin compared to franchise stores), in terms of absolute number and as a percentage of the total number of KKV and THE COLORIST stores.

The gross profit margin of KK Guan decreased from 25.5% in 2020 to 19.4% in 2021, and further decreased to 17.5% in 2022, primarily because store network under this brand were proportionally made up of more franchise stores, which generally command lower gross profit margin compared to self-owned stores. The gross profit margin of KK Guan increased from 17.5% for the ten months ended October 31, 2022 to 33.5% for the same period of 2023, mainly because self-owned KK Guan stores accounted for a higher percentage of KK Guan stores, in terms of the number of stores, after we implemented the store network optimization initiatives. See "Business — Store Network Optimization Initiatives."

The gross profit margin of X11 increased from 40.4% in 2020 to 43.4% in 2021, primarily due to (i) the opening of more self-owned stores which generally have higher gross profit margin; and (ii) introduction of more merchandise carrying higher gross profit margin into X11 merchandise portfolio. The gross profit margin of X11 decreased slightly from 43.4% in 2021 to 42.0% in 2022, primarily because our X11 stores in tier-one cities, which generally feature pop toys with higher gross profit margin, were subject to longer period of temporary store closure in 2022, due to the pandemic control measures imposed by the relevant authorities. The gross profit margin of X11 remained relatively stable at 44.3% and 45.1% for the ten months ended October 31, 2022 and 2023, respectively.

Our other business had a relatively low gross profit margin in 2021, primarily because we were switching the business model of our online sales business. In 2021, we decided to conduct online sales by working with two leading online-to-offline e-commerce platforms in the PRC, and gradually terminated collaboration with the previous online sales business partners. See "Business — Online Sales." Although online sales business generally has a higher gross profit margin, proportionally less revenue was generated from online sales in 2021 compared to 2020 — 36.3% in 2021 compared to 67.5% in 2020, as a percentage of the revenue generated from other business, leading to the relatively lower gross profit margin of other business in 2021. The gross profit margin of our other business increased from 33.9% for the ten months ended October 31, 2022 to 40.6% for the same period of 2023, mainly because of the significant expansion of our online sales business, which generally has a higher gross profit margin.

The following table sets forth our gross profit and gross profit margin generated from sale of goods, by source of merchandise, during the Track Record Period:

	Year ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Self-owned brand merchandise[(1)]	94,960	46.8%	221,810	50.5%	190,135	52.3%	164,966	52.1%	385,167	59.2%
Third party brand merchandise[(2)]	324,958	23.8%	967,607	32.8%	1,137,506	36.8%	973,948	36.5%	1,793,621	44.3%
Total	**419,918**	**26.8%**	**1,189,417**	**35.1%**	**1,327,641**	**38.4%**	**1,138,914**	**38.1%**	**2,178,788**	**46.4%**

Notes:

(1) Self-owned brand merchandise refers to merchandise we procure from OEM and ODM contractors.

(2) Third party brand merchandise refers to merchandise we procure from Third Party Brand Suppliers.

Other Income

Our other income primarily consisted of (i) interest income from loans to franchisees; (ii) government grants; (iii) renovation income; (iv) interest income from other investments; and (v) interest income from deposits and cash equivalents.

The following table sets forth our other income in absolute amounts and as percentages of our total other income for the years and periods indicated:

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Interest income from loans to franchisees	29,950	85.8%	39,704	64.9%	8,083	13.0%	7,588	13.1%	572	1.5%
Government grants(1)	1,682	4.8%	1,664	2.7%	39,446	63.4%	37,918	65.7%	27,293	73.0%
Renovation income	1,695	4.9%	9,333	15.3%	2,558	4.1%	1,837	3.2%	–	–
Interest income from other investments	–	–	1,850	3.0%	3,073	4.9%	3,073	5.3%	–	–
Interest income from deposits and cash equivalents	485	1.4%	3,510	5.7%	7,117	11.4%	5,684	9.8%	10,477	28.0%
Fair value changes of other investments	–	–	–	–	567	0.9%	303	0.5%	(1,089)	(2.9%)
Others(2)	1,076	3.1%	5,133	8.4%	1,416	2.3%	1,366	2.4%	140	0.4%
Total	**34,888**	**100.0%**	**61,194**	**100.0%**	**62,260**	**100.0%**	**57,769**	**100.0%**	**37,393**	**100.0%**

Notes:

(1) Government grants primarily represented cash subsidies received from the relevant authorities in Guangdong Province in connection with various government initiatives to stimulate local economies. Such government grants were one-off and non-recurring in nature. Compared to 2021, the significant increase in government grants in 2022 mainly reflected the one-off reward of RMB39.4 million we received from the relevant authorities of Shenzhen, Guangzhou, and Dongguan in 2022.

(2) Primarily including income generated from renovation services and advertising services we provided to franchisees.

During the Track Record Period, we extended interest-bearing borrowings to certain franchisees to provide start-up capitals in support of the launching and initial operations of their new stores. Pursuant to the relevant agreements, each borrowing franchisee is contractually obliged to repay us either by way of (i) fixed monthly repayment (inclusive of interest and principal) over the entire term of the loan; or (ii) fixed interest only monthly repayment with principal due at the end of the terms of the loan. See "Business — Self-owned Stores and Franchise Stores — Financial Support Provided to Franchisees — Loans to Franchisees — Legality of Loans to Franchisees." Our PRC Legal Advisers are of the view that we are legally entitled to the interest income derived from the loans to franchisees, in accordance with the interest-bearing borrowings arrangements entered into with franchisees, on the basis that (i) the interest-bearing borrowings arrangements with franchisees did not constitute circumstances stipulated in Article 146, 153 and 154 of the PRC Civil Code (《中華人民共和國民法典》), or Article 13 of the Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the "**Judicial Interpretations on Private Lending Cases**"); and (ii) the annual interest rates of the interest-bearing borrowings arrangements did not exceed the rate(s) set out by the Judicial Interpretations on Private Lending Cases.

Our interest income from loans to franchisees decreased from RMB30.0 million in 2020 to RMB8.1 million in 2022, and decreased from RMB7.6 million for the ten months ended October 31, 2022 to RMB0.6 million for the ten months ended October 31, 2023, primarily because the balance of loans to franchisees decreased from RMB272.0 million as of December 31, 2020 to RMB9.5 million as of December 31, 2022 and then to RMB4.0 million as of October 31, 2023. For details on repayment of loans, see "Business — Self-owned Stores and Franchise Stores — Financial Support Provided to Franchisees — Loans to Franchisees."

In addition, we also received certain government grants during the Track Record Period. Such amounts and timing of our government grants are determined at the sole discretion of the relevant government authorities in the PRC. Therefore, there is no assurance that we will continue to receive any government grants in the future.

Selling and Distribution Expenses

Our selling and distribution expenses primarily consisted of (i) depreciation and amortization expenses; (ii) staff costs; (iii) logistic costs; (iv) other rental expenses and property management fees; and (v) others.

Depreciation and amortization expenses primarily relate to our fixed assets in the retail stores and right-of-use assets such as leases of the retail stores. Staff costs relating to our sales and distribution channels primarily consist of salaries, wages, other benefits and contributions to defined contribution retirement plans of store-level personnel. Logistics costs primarily represents fees paid by us to third-party service providers for merchandise transportation. Other rental expenses and property management fees are primarily associated with short-term leases, leases for low-value assets, and variable lease payments in connection with our retail stores.

The following table sets forth a breakdown of the components of our selling and distribution expenses both in absolute amounts and as percentages of total selling and distribution expenses for the years and periods indicated:

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Depreciation and amortization[1]	199,673	50.5%	444,881	40.5%	618,736	47.1%	478,931	45.6%	532,602	37.0%
Staff costs	70,010	17.7%	249,628	22.8%	306,193	23.3%	248,381	23.7%	359,911	25.0%
Logistics costs	89,619	22.7%	164,472	15.0%	123,448	9.4%	111,034	10.6%	203,185	14.1%
Other rental expenses and property management fees	(15,870)[3]	(4.0%)	115,862	10.6%	97,232	7.4%	89,922	8.6%	157,915	11.0%
Office expenses	10,853	2.7%	39,534	3.6%	47,773	3.6%	37,927	3.6%	53,123	3.7%
Advertising expenses	3,623	0.9%	33,409	3.0%	65,331	5.0%	42,813	4.1%	65,630	4.6%
Sampling expenses	24,843	6.3%	30,626	2.8%	25,812	2.0%	21,675	2.1%	18,575	1.3%
Others[2]	12,499	3.2%	19,071	1.7%	28,645	2.2%	18,576	1.7%	47,043	3.3%
Total	**395,250**	**100.0%**	**1,097,483**	**100.0%**	**1,313,170**	**100.0%**	**1,049,259**	**100.0%**	**1,437,984**	**100.0%**

Notes:

(1) Under HKFRS 16, depreciation charges for our right-of-use assets are recognized as depreciation and amortization, typically periodically depreciated on a straight-line basis over the lease term.

(2) Refers to miscellaneous expenses such as repairs and maintenance fees, consumable expenses and outsourcing service fees.

(3) Primarily representing (i) lease payments for leases which had a lease term of 12 months or less; (ii) leases for low-value assets; and (iii) variable lease payments based on operation results of relevant stores other than fixed rates. In 2020, we were granted rent concessions of RMB32.0 million by our landlords in relation to the COVID-19 pandemic, and recorded the amount as a negative variable lease payments. The COVID-19-related rent concessions were RMB17.0 million, RMB56.4 million and RMB52.0 million in 2021 and 2022 and the ten months ended October 31, 2023, respectively. Such rent concessions were one-off and non-recurring in nature.

In 2020, 2021 and 2022 and the ten months ended October 31, 2022 and 2023, our selling and distribution expenses were RMB395.3 million, RMB1,097.5 million, RMB1,313.2 million, RMB1,049.3 million and RMB1,438.0 million, respectively, which were generally in line with our overall business growth.

Administrative and Other Operating Expenses

Our administrative and other operating expenses primarily include (i) staff costs; (ii) impairment losses; (iii) depreciation and amortization expenses which are primarily related to our premises and leased properties; (iv) professional service fee such as legal and service fees paid to various professional parties whom we engaged and consulted in connection with this [**REDACTED**] and several rounds of financing activities in 2021. For details of our past financing activities, see "History, Reorganization and Corporate Structure — Our Corporate History and Major Shareholding Changes of Our Group;" (v) other rental expenses and property management fees; (vi) office expenses; (vii) traveling and entertainment expenses; (viii) advertising expenses; (ix) inventory losses or gains; (x) losses or gains on stores closures; (xi) service charges; and (xii) tax and surcharges.

Staff costs primarily consisted of salaries, wages, other benefits, and contributions to contribution retirement plans of our administrative personnel. The continued increase in our staff costs during the Track Record Period was primarily due to the increase in the total headcount of our administrative personnel or increased salaries, in line with our continuous business growth during the Track Record Period.

The following table sets forth a breakdown of our administrative and other operating expenses both in absolute amounts and as percentages of total administrative and other operating expenses for the years and periods indicated:

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Staff costs	114,853	40.7%	210,394	40.1%	212,717	42.8%	174,077	45.0%	196,820	41.7%
Impairment losses	18,492	6.6%	45,734	8.7%	48,006	9.6%	27,490	7.1%	21,214	4.5%
Depreciation and amortization	23,267	8.3%	27,773	5.3%	36,332	7.3%	34,046	8.8%	55,824	11.8%
Professional service fees	20,910	7.4%	24,717	4.7%	52,568	10.6%	50,038	12.9%	44,603	9.4%
Other rental expenses and property management fees	13,314	4.7%	22,700	4.3%	34,414	6.9%	32,150	8.3%	17,886	3.8%
Office expenses	15,473	5.5%	14,711	2.8%	12,749	2.6%	10,849	2.8%	11,369	2.4%
Traveling and entertainment expenses	8,292	2.9%	11,956	2.3%	11,041	2.2%	9,275	2.4%	15,712	3.3%
Advertising expenses	8,925	3.2%	11,993	2.3%	12,302	2.5%	8,514	2.2%	9,579	2.0%
Inventory losses	23,392	8.3%	35,684	6.8%	32,788	6.6%	25,955	6.7%	24,525	5.2%
Losses/(gains) from store closures[1]	17,819	6.3%	42,862	8.2%	24,059	4.8%	3,057	0.8%	4,426	0.9%
Service charges	8,210	2.9%	11,899	2.3%	7,778	1.6%	6,880	1.8%	11,267	2.4%
Taxes and surcharges	3,318	1.2%	7,554	1.4%	7,298	1.5%	6,045	1.6%	26,454	5.6%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Foreign exchange losses/(gains)	1,363	0.5%	14,752	2.8%	(20,956)	(4.2%)	(23,691)	(6.1%)	(2,800)	(0.6%)
Others	953	0.3%	21,349	4.1%	11,251	2.2%	8,327	2.2%	24,875	5.4%
Total	**281,894**	**100.0%**	**524,739**	**100.0%**	**497,454**	**100.0%**	**386,705**	**100.0%**	**472,138**	**100.0%**

Note:

(1) We may incur losses or gains from store closures, primarily including (i) loss of rental deposits and rental defaults; (ii) amounts or loans due from franchisees, which are written off upon store closures; (iii) losses from disposal of property, plant and equipment; (iv) gains from termination of lease contracts upon store closures; and (v) other compensation gains from landlords upon store closures.

(Loss)/Profit from Operations

During the Track Record Period, we had loss from operations of RMB142.5 million, RMB237.5 million, RMB322.8 million and RMB159.6 million in 2020, 2021 and 2022 and for the ten months ended October 31, 2022, and had profit from operations of RMB376.3 million for the ten months ended October 31, 2023. While such profit was mainly due to the favorable impacts on our business operations after the COVID-19 pandemic control measures were gradually lifted in China since January 2023, such losses were the result of (i) the COVID-19 pandemic and (ii) our store- and headquarters-level investments to expand our store network nationwide.

In 2020, 2021 and 2022, the COVID-19 pandemic affected our results of operations primarily in the following aspects:

- ***Temporary store closure, shortened operating hours and restriction on mobility.*** The pandemic control measures implemented in China resulted in temporary store closures of 28.9%, 12.5% and 83.3% retail stores in our store network, as of December 31, 2020, 2021 and 2022, respectively. The average closure days were 26.2 days, 17.6 days and 27.7 days in 2020, 2021 and 2022, respectively. During temporary store closure, the closed stores could not provide service to, or generate revenue from, customers offline. Some of our stores were required to shorten the operational hours pursuant to the pandemic control measures. In addition, even during the operational hours, customers might not be able to visit our stores because of the restriction on mobility during the pandemic.

- ***Ramp-up periods of newly-opened stores.*** A large portion of our retail stores were still in their ramp-up period when the COVID-19 pandemic broke out in late 2019, and a large number of retail stores were opened during the pandemic period, according to our growth strategy. According to the Frost & Sullivan Report, it usually takes a retail store that sells lifestyle products two to three years to go through the ramp-up period without any significant disruption.

- ***Change of consumer habits.*** We primarily operate retail business through offline store network. However, consumers were encouraged or influenced to do more shopping, especially to purchase lifestyle products, online during the COVID-19 pandemic.

- ***Expenses to maintain operational efficiency.*** Despite the impact of the COVID-19 pandemic on our operating results in 2020, 2021 and 2022, we continued to maintain the level of expenses that we paid at store-level and headquarters-level if otherwise, in order to ensure the operational efficiency of services that we provided to consumers.

In 2020, 2021 and 2022, our store- and headquarters-level investments had an impact on our results of operations:

- ***Store-level investments to expand our store network.*** We made substantial investments at the store level to expand our store network, enhance brand awareness, and sustain daily operations. In 2020, 2021 and 2022, our selling and distribution expenses, which mainly related to our store-level investments, accounted for 24.0%, 31.1% and 37.0% of total revenue, respectively. In particular, the relatively large retail space of KKV, THE COLORIST and X11 stores located in tier-one and tier-two cities incurred significant rental expenses in 2020, 2021 and 2022, as reflected by the depreciation and amortization expenses in respective years. As of December 31, 2022, the average retail space of KKV, THE COLORIST and X11 stores was 955 sq.m., 277 sq.m., and 912 sq.m., while 59.7% of our KKV, THE COLORIST and X11 stores were located in tier-one and tier-two cities in China. Spacious retail stores in tier-one and tier-two cities could improve our brand image, showcase our product portfolio, enhance shopping experiences, and potentially bring more customer traffic to our store network.

- ***Headquarters-level investments to lay foundation for business growth.*** In 2020, 2021 and 2022, we made substantial investments at the headquarters-level to support our overall expansion plan. Our investments at the headquarters-level focus on talent resources, information technology infrastructure, and premises and leased properties. Such investments could be reflected by administrative and other operating expenses. As a percentage of total revenue, our administrative and other operating expenses were 17.1%, 14.9% and 14.0% in 2020, 2021 and 2022, respectively.

Finance Costs

Our finance costs consisted primarily of interest on lease liabilities and interest on loans and borrowings. The following table sets forth a breakdown of our finance costs in absolute amounts and as percentages of total finance costs for the years and periods indicated:

	Year Ended December 31,						Ten Months Ended October 31,			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Interest on lease liabilities	35,182	71.6%	73,101	79.9%	91,099	88.0%	73,170	87.1%	73,975	91.4%
Interest on loans and borrowings	13,970	28.4%	18,410	20.1%	12,375	12.0%	10,839	12.9%	6,948	8.6%
Total	**49,152**	**100.0%**	**91,511**	**100.0%**	**103,474**	**100.0%**	**84,009**	**100.0%**	**80,923**	**100.0%**

We incurred finance costs of RMB49.2 million, RMB91.5 million, RMB103.5 million, RMB84.0 million and RMB80.9 million in 2020, 2021 and 2022 and the ten months ended October 31, 2022 and 2023, respectively. The increase in finance costs from 2020 to 2022 primarily reflected new lease agreements we entered into for our growing retail business and/or our increased debt financing activities during the Track Record Period, which was largely in line with our business expansion during the period. The slight decrease in finance costs from the ten months ended October 31, 2022 to the ten months ended October 31, 2023 was mainly due to the decreased interest on loans and borrowings as a result of the decreased bank borrowings.

Share of Losses/Profits from Joint Ventures

As part of our business strategies and due to the nature of our business models, we have established joint ventures with our franchisees. See "Business — Self-owned Stores and Franchise Stores — Franchise Stores." Given that substantially all our joint ventures were established during the Track Record Period and many were still at their early stage of development, they would need to incur a substantial amount of expenses related to new store openings, such as decoration and renovation expenses, and rental expenses. In 2020, 2021 and 2022 and for the ten months ended October 31, 2022, we had share of losses of joint ventures of RMB16.2 million, RMB32.3 million, RMB81.7 million, and RMB71.8 million, respectively. We had share of profits from joint ventures of RMB11.1 million for the ten months ended October 31, 2023, due to the improved financial performance of our joint ventures, after the adverse effects of the COVID-19 pandemic subsided since January 2023.

Fair Value Changes of Financial Liabilities Measured at FVTPL

Our Company and Guangdong Kuaike have issued a series of convertible redeemable preferred shares and ordinary shares with redemption option prior to and during the Track Record Period. These instruments can also be converted into our ordinary shares at any time at the option of the holders, or automatically upon occurrence of an [**REDACTED**] of our Company. For details of our equity-based financing in the past, see "History, Reorganization and Corporate Structure — Our Corporate History and Major Shareholding Changes of Our Group" and note 26(a) to the Accountants' Report in Appendix I to this document.

We designated the convertible redeemable preferred shares and ordinary shares with redemption option as financial liabilities at fair value through profit or loss. We applied the discount cash flow method to determine our underlying equity value and adopted option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares and ordinary shares with redemption option.

Our fair value changes of financial liabilities measured at FVTPL were a loss of RMB1.8 billion, RMB5.4 billion and RMB10.0 million in 2020 and 2021 and for the ten months ended October 31, 2023, and a gain of RMB489.2 million, RMB456.0 million in 2022 and for the ten months ended October 31, 2022, respectively. The gain on fair value changes of financial liabilities measured at FVTPL in 2022 primarily reflected the decrease in our valuation in 2022, as a result of the adverse effects of the COVID-19 pandemic in China, on the operation and financial performance of our store network. These fair value changes of financial liabilities measured at FVTPL represent changes in fair value of redemption liabilities of ordinary shares and convertible redeemable preferred shares issued to investors in various rounds of private financings. See note 26 and 27(e)(i) to the Accountants' Report in Appendix I to this document.

Income Tax

Income tax consists of current tax expense and deferred tax credit. All our PRC-established subsidiaries were subject to the PRC corporate income tax rate of 25% during the Track Record Period. As of the Latest Practicable Date, we had no material dispute with any tax authority.

The following table sets forth the breakdown of income tax expenses for the years and periods indicated:

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** *(Unaudited)*	**RMB'000**
Current tax	1,868	6,812	8,839	24,541	38,104
Deferred tax	(35,040)	(43,585)	(89,454)	(72,563)	48,940
Total	**(33,172)**	**(36,773)**	**(80,615)**	**(48,022)**	**87,044**

We are subject to various rates of income tax under different jurisdictions. The following summarizes major factors affecting our applicable tax rates in the Cayman Islands, the British Virgin Islands, Hong Kong, the PRC and Indonesia.

Cayman Islands

We are incorporated in the Cayman Islands. Under the current law of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

British Virgin Islands

Our subsidiary incorporated in the British Virgin Islands is not subject to income or capital gains tax under the current laws of the British Virgin Islands. The British Virgin Islands do not impose a withholding tax on dividends.

Hong Kong

Hong Kong has adopted a two-tiered profits tax rates regime since March 2018. Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The two-tiered profits tax rates would only apply to the one which is nominated to be chargeable at the two-tiered rates. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5%.

No provision for Hong Kong Profits Tax was made as we did not generate any assessable income subject to Hong Kong Profits Tax during the Track Record Period.

PRC

Our subsidiaries incorporated in China are subject to the PRC Enterprise Income Tax ("**EIT**") on their taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant PRC income tax laws. Pursuant to the PRC Enterprise Income Tax Law, or the EIT Law, which became effective on January 1, 2008 and was last amended on December 29, 2018, our subsidiaries in the PRC are generally subject to EIT at the statutory rate of 25%. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards.

Indonesia

Our subsidiaries incorporated in Indonesia were subject to income tax rate of 22% during the Track Record Period.

PATH TO PROFITABILITY

We believe the offline-driven non-grocery retail market in China has significant growth potentials, primarily driven by the consumers' pursuit of personalized lifestyle, the product diversification, and the demand for surprise-filled and satisfying shopping experiences. According to the Frost & Sullivan Report, the market size of offline-driven non-grocery retail market by GMV has experienced a fast expansion in recent years, and is expected to grow to RMB655.5 billion in 2027 from RMB268.5 billion in 2022, representing an estimated CAGR of 19.5%. As one of the top three offline-driven non-grocery retailers for lifestyle products in China by GMV in 2022, we have the opportunity to address customer needs and to capture market opportunities.

Considering the offline operation and retail nature of our business, the COVID-19 pandemic had adversely impacted our operations during the Track Record Period. See "— Description of Select Consolidated Statements of Comprehensive Income Line Items — (Loss)/Profit from Operations." However, we strongly believe that our brand image, merchandise portfolio, and shopping environment still have attractiveness and will continue to attract customers and cater for the strong demand from the market.

As the adverse effects of the COVID-19 pandemic had subsided since January 2023 and as we continue to implement measures to improve store operations and optimize our store network, we have witnessed a strong growth of 43.4% in average monthly GMV per store from RMB539.4 thousand in the ten months ended October 31, 2022 to RMB773.7 thousand in the ten months ended October 31, 2023. Our profitability improved significantly as we recorded profit from operations of RMB376.3 million in the ten months ended October 31, 2023, compared to loss from operations of RMB159.6 million in the ten months ended October 31, 2022.

Going forward, we expect to continue to improve our financial performance and continue to achieve profitability, primarily by (i) improving performance of existing stores, (ii) expanding and optimizing store network, and (iii) reducing costs and expenses as a percentage of revenue.

Improving Performance of Existing Stores

We plan to improve performance of our existing stores with the following methods:

- ***Adjust product portfolio to catch market trend***. As of October 31, 2023, we offered consumers products of over 20,000 SKUs covering all major lifestyle product categories. During the Track Record Period, we continued to leverage our technology capacity and specialized in-house merchandise buyers to determine and compile product portfolio to catch up with the evolving market trend and customer preference in a timely manner. The merchandise offerings elimination rate of our KKV stores in the ten months ended October 31, 2023 was approximately 20.1%, measured by SKUs eliminated divided by total SKUs in the ten months ended October 31, 2023. See "Business — Our Merchandise Offerings — Our Merchandise Sourcing Procedures and Selection Policy — Our Merchandise Selection Criteria and Process."

- ***Optimize shelf display to attract target consumers***. To satisfy the appetite of our target customers, our shelf displays are constantly showcasing new and novel products to attract customers and promote satisfying shopping experiences. We continue to utilize our KVCM system to synchronize shelf display information at each store to our headquarters through a visualized interface. By utilizing this system, we can adjust, on a real-time basis, the category, amount and position of a specific product type on the shelf at each store.

- ***Promote online marketing and online sales to broaden customer touchpoints***. We look to enhance our brand image and broaden customer touchpoints through content marketing by the KOLs. Quite a number of our stores have become popular check-in spots welcomed by internet celebrities who are keen to share their shopping experiences on social media platforms. As of October 31, 2023, substantially all of the stores under our retail brands in China were cooperating with the online-to-offline e-commerce platforms. We will continue to utilize the on-demand delivery networks operated by these platforms together with our nationwide store network in order to broaden customer touchpoints.

Expanding and Optimizing Store Network

We expect to expand target customer coverage, increase market presence in existing markets and penetrate into new regions. See "Business — Network Management and Operations — Expansion Plan for Sales Channels." We achieved a successful track record of adding 408, 288, 100 and 194 new stores in 2020, 2021, 2022 and 2023, respectively. As of December 31, 2023, there were 800 stores under our retail brands, including 676 stores in approximately 583 shopping malls in tier-two and lower tier cities in China, accounting for less than 12.0% of the total number of shopping malls in these cities in China as of December 31, 2023. We therefore believe there is sufficient whitespace to support the increase in the number of our stores contemplated by our store expansion plan.

To ensure healthy and sustainable business expansion, we have been adjusting and carrying out store network optimization strategies, in terms of (i) store brand, (ii) store type, and (iii) city tier coverage:

- ***Revenue growth mainly powered by our KKV, THE COLORIST and X11.*** As of October 31, 2023, there were 421 KKV stores, 216 THE COLORIST stores, 48 X11 stores and 39 KK Guan stores, respectively. We expect to continue to increase the total number and proportion of KKV, THE COLORIST and X11 stores in our overall retail store network. In the ten months ended October 31, 2023, the average monthly GMV per store under KKV, THE COLORIST and X11 brands was RMB1,038.2 thousand, RMB418.5 thousand, and RMB676.7 thousand, respectively while the average monthly GMV per store under KK Guan brand was RMB274.0 thousand.

- ***Increase number and proportion of self-owned stores.*** We plan to increase the total number and proportion of self-owned stores by opening more self-owned stores primarily due to the following reasons:

  - *Greater discretion in selecting sought-after merchandise leads to higher sales in stores*. An offline-driven non-grocery retailer for lifestyle products with a more diverse and sought-after product portfolio generally attracts more customer traffic which leads to more GMV, according to the Frost & Sullivan Report. Compared to franchise stores, we have full discretion in selecting merchandise and eliminating unpopular ones in self-owned stores based on the dynamic purchase history and real-time inventory feedback from our stores.

  - *Greater discretion in lease arrangement and staff employment leads to higher operation efficiency*. Compared to individual franchise stores, we can bargain for preferred lease terms with lessors for a number of self-owned stores and manage our rental related expenses as a percentage of revenue through economies of scale. In self-owned stores, we have full discretion in store-level staff cost control by adjusting the number and structure of staffing. Such discretion helps us better manage our store operation efficiency.

- ***Further penetrate to lower tier cities.*** We plan to further penetrate to lower tier cities in China where (i) customers' purchasing power is improving, (ii) demand for personalized lifestyle products is increasing, (iii) the market is relatively underpenetrated, and (iv) average rental related expenses and staff costs per store tend to be lower than those in higher tier cities. Our average monthly GMV per store in lower tier cities is approaching the levels of the stores under KKV, THE COLORIST and X11 brands in tier-one and tier-two cities in China. As our brand awareness in lower tier cities in China grows, we expect this trend to continue in the future.

Reducing Costs and Expenses as Percentage of Revenue

Our extensive store network and established brand recognition enhance our bargaining power over product suppliers and contractors, lessors and other service providers.

Growth of Gross Profit Margin

Our gross profit margin increased from 30.4% in 2020 to 37.6% in 2021 and then to 40.1% in 2022, and increased from 39.7% in the ten months ended October 31, 2022 to 47.2% for the ten months ended October 31, 2023. See "— Description of Select Consolidated Statements of Comprehensive Income Line Items — Gross Profit and Gross Profit Margin."

We expect to increase our gross profit margin primarily in the following aspects:

- ***Introduce more self-owned brand merchandise.*** During the Track Record Period, our self-owned brand merchandise had a higher profit margin than that of third party brand merchandise, because we had more control over the value chain for self-owned brand merchandise. In 2020, 2021 and 2022 and the ten months ended October 31, 2023, our gross profit margin generated from sale of self-owned brand merchandise was 46.8%, 50.5%, 52.3% and 59.2%, respectively, while our gross profit margin generated from sale of third party brand merchandise was 23.8%, 32.8%, 36.8% and 44.3%, respectively.

We will continue to increase sales of our self-owned brand merchandise in absolute amount and as a percentage of our total sales, by (i) introducing more self-owned brand merchandise in product categories where (a) consumers do not have strong brand preferences and (b) the prevailing consumers' personalized demand has not been adequately addressed, such as women's accessories and beauty tools, (ii) improving the quality, aesthetical appearances and functionalities of our self-owned brand merchandise, and (iii) launching more self-owned brand merchandise with excellent quality and reasonable price.

- ***Bargain for more favorable prices of third party brand merchandise.*** We have maintained a large supplier pool to ensure rapid merchandise refreshment based on our stringent review procedures. As of October 31, 2023, we had 1,179 Third Party Brand Suppliers. Leveraging our market influence, bulk purchase abilities, excellent merchandise selection capabilities, as well as a diverse supplier network, we have and will continue to utilize our bargaining power for more favorable prices on third party brand merchandise.

Control Store-level Expenses as a Percentage of Revenue

We focus on improving cost effectiveness at store level to achieve margin growth. Our selling and distribution expenses, which were primarily related to our store-level expenses, as a percentage of our total revenue, decreased from 34.2% in the ten months ended October 31, 2022 to 30.2% in the ten months ended October 31, 2023.

Store-level Depreciation and Amortization

We expect that store-level depreciation and amortization, which is primarily related to rental expenses of premises and leased properties at our store level and accounts for a large proportion of our store-level expenses, will grow at a slower pace than revenue by taking the following measures:

- We will continue to optimize the store size. We have carefully evaluated the balance of (i) appropriate store size to enhance our brand image and showcases our product portfolio and (ii) rental expenses in relation to large store size. Since 2023, we have implemented upgraded store opening standards containing the optimized store size under four retail brands based on the current and expected customer traffic, the store decoration and the shelf display. In these upgraded standards, the standard store size for KKV, THE COLORIST and X11 is 800 sq.m., 150 sq.m., and 200 to 250 sq.m., respectively which is generally smaller than the average store size under these three retail brands as of December 31, 2022.

- We will continue to utilize our increasing bargaining power to obtain preferred terms negotiated with third parties through economies of scale. Our depreciation and amortization at the store level, as a percentage of our total revenue, decreased from 15.6% in the ten months ended October 31, 2022 to 11.2% in the ten months ended October 31, 2023.

- We will increase the absolute number and the proportion of stores in lower tier cities where average rental related expenses and staff cost per store tend to be lower than those in higher tier cities. The number of stores in cities below tier two as a percentage of our total number of stores increased from 26.8% as of December 31, 2020 to 34.1% as of October 31, 2023.

Store-level Staff Cost

We intend to reduce our store-level staff cost per store in the following aspects:

- We will adjust the number and structure of staffing based on anticipated need, which helps prevent over-staffing. For example, our average in-store staff number per store under our four retail brands decreased from 11 as of December 31, 2020 to 10 as of October 31, 2023, primarily due to our effective trainings and adoption of upgraded KPOS system which further automatize the store operation. Our store-level staff cost, as a percentage of our total revenue, decreased from 8.1% in the ten months ended October 31, 2022 to 7.5% in the ten months ended October 31, 2023.

- We plan to optimize store-level staff efficiency and associated staff cost by enhancing supervision over store performance dynamically and through improving our technology to empower day-to-day store operation:

  ◦ We will continue to optimize our store management system and assign our regional store managers to regularly conduct on-site inspections at our retail stores to ensure stores in compliance with our operating guidelines, including standardized operating procedures, warehousing and logistics operations, and staff training. Moreover, we expect operational efficiencies to be realized as our store density increases, which will enable each regional store manager to oversee more stores.

  ◦ We will continue to upgrade proprietary KPOS, KVCM and other systems utilized in every store which will continue to automatize in-store operation, reduce operation dependence on human factors, enhance the replicability of store operation and avoid duplicate work.

Logistics Cost

As of October 31, 2023, we had seven national distribution centers located in Foshan, Dongguan, Tianjin, Jiaxing, Chengdu, Wuhan and Shanghai, compared to five as of December 31, 2020. As of October 31, 2023, our regional warehouse network comprised seven leased warehouses. We intend to reduce logistics cost, as a percentage of our total revenue, in the following aspects:

- We will continue to utilize logistics systems to efficiently allocate delivery resources in our store network. Leveraging our TERP and WMS systems, we are able to track in real time for each purchase made by our customers and plan the sequence of each delivery to reduce latency time, and avoid out-of-region fulfillment when certain merchandise is out of stock. As a result, we can allocate our delivery resources across different regions efficiently and improve the space utilization and operational efficiency of our warehousing facilities.

- We will continue to utilize logistics service providers and bargain for preferred terms through economies of business scale. By utilizing third party logistics service providers, we can reduce our capital investments in developing and maintaining an in-house logistics system. As of October 31, 2023, we engaged 11 logistics service providers, including eight in China and three in Indonesia. Since there are sufficient replacement logistics service providers and our business scale continuously grows, we will bargain for preferred terms with logistics service providers.

Reduce Headquarters-level Expenses as a Percentage of Revenue

During the Track Record Period, our administrative and other operating expenses which are primarily related to headquarters-level expenses, as a percentage of total revenue, decreased from 17.1% in 2020 to 14.0% in 2022 and then to 9.9% in the ten months ended October 31, 2023, primarily because:

- Our headquarters-level staff cost as a percentage of total revenue decreased from 7.0% in 2020 to 6.0% in 2022 and then to 4.1% in the ten months ended October 31, 2023, primarily because we have gradually optimized our talent pool management and developed well-established and effective training system.

- Our headquarters-level depreciation and amortization which is primarily related to rental expenses of premises and leased properties at our headquarters level, as a percentage of total revenue, decreased from 1.4% in 2020 to 1.0% in 2022, as we obtained preferred terms negotiated with third parties by leveraging our increasing bargaining power through economies of scale.

As our business continues to grow, we expect to make headquarters-level investments at a more moderate pace and reduce headquarters-level expenses as a percentage of revenue to attain group-level profitability, primarily in the following aspects:

- To control our headquarters-level staff cost, we will remain disciplined and prudent with respect to the rate at which we increase our headcount, and continue to optimize our talent pool. As we constantly optimize our staff structure, implement effective training system and carry out efficient performance appraisal, total number of staff at headquarters level decreased from 1,209 as of December 31, 2021 to 1,085 as of December 31, 2022, and then to 1,033 as of October 31, 2023.

- We expect the headquarters-level depreciation and amortization as a percentage of revenue to further decrease as our continued nationwide growth and strengthening brand image will enhance our bargaining power in lease negotiations, which will enable us to secure lower rents and further optimize our lease term structures.

By taking the foregoing approaches, we expect to continue to improve our operation and financial performance. We improved our profitability as we recorded profit from operations of RMB376.3 million in the ten months ended October 31, 2023, compared to loss from operations of RMB159.6 million in the ten months ended October 31, 2022.

The foregoing forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. See "Risk Factors — Risks Relating to Our Business and Industry — We may not be successful in sustaining growth in our financial performance."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Ten Months Ended October 31, 2023 Compared to Ten Months Ended October 31, 2022

Revenue

Our revenue increased by 55.5% from RMB3.1 billion for the ten months ended October 31, 2022 to RMB4.8 billion in the same period of 2023.

Our revenue generated from the sale of goods increased by 57.3% to RMB4.7 billion in the ten months ended October 31, 2023 compared to RMB3.0 billion in the same period of 2022. Such increase was primarily attributable to (i) the improved average monthly GMV per store from RMB539.4 thousand in the ten months ended October 31, 2022 to RMB773.7 thousand in the ten months ended October 31, 2023, due to the lift of pandemic control measures since January 2023; and (ii) our expanded self-owned store network, from 556 self-owned stores as of October 31, 2022 to 615 self-owned stores as of October 31, 2023, primarily as driven by our store network optimization initiatives. We generally recognize more revenue from a retail store upon its conversion from a franchise store into a self-owned store. See "Business — Store Network Optimization Initiatives" for details on conversion of franchise stores into self-owned stores, and "Business — Self-owned Stores and Franchise Stores" for details on the effects of franchisee stores on our results of operations before the store network optimization.

Our revenue generated from sales-based management and consultation service income decreased by 11.8% to RMB70.3 million in the ten months ended October 31, 2023 compared to RMB79.7 million in the same period of 2022, which was generally in line with the decreased number of franchise stores in our store network. Management and consultant fees were charged as a percentage of monthly GMV in accordance with respective franchise agreements. See "Business — Network Management and Operations — Store Management — Management of Franchise Stores."

Cost of Sales

Our cost of sales increased by 36.4% from RMB1.8 billion for the ten months ended October 31, 2022 to RMB2.5 billion in the same period of 2023. The increase in our cost of sales was mainly driven by our revenue growth.

Gross Profit and Gross Profit Margin

Our gross profit increased by 84.6% from RMB1.2 billion for the ten months ended October 31, 2022 to RMB2.2 billion for the same period of 2023, primarily because our (i) store network, particularly the number of our self-owned stores, continued to grow from October 31, 2022 to October 31, 2023; and (ii) we leveraged our bargain power for more favorable procurement costs from our suppliers.

Our gross profit margin increased to 47.2% for the ten months ended October 31, 2023 from 39.7% for the same period of 2022, primarily because (i) the number of our self-owned stores grew from 556 as of October 31, 2022 to 615 as of October 31, 2023, accounting for a larger proportion of the total number of stores within our store network. Compared to franchise stores, self-owned stores generally command higher gross profit margin mainly because the entire store sales of self-owned stores is consolidated into our Group's consolidated financial performance as opposed to a certain percentage in the case of franchise stores under the franchising arrangement; (ii) the third party brand merchandise in our product portfolio, which constituted the majority of our revenue generated from sale of goods, had a higher gross profit margin of 46.4% for the ten months ended October 31, 2023 compared to 38.1% for the same period of 2022, mainly due to our strengthened bargaining power over suppliers, contributed by our continuously expanded store network, for more favorable procurement costs; (iii) in terms of revenue, KKV stores, which commanded higher gross profit margins than the overall gross profit margin, accounted for a greater percentage of our total revenue; (iv) the increase in the gross profit margin of THE COLORIST and KK Guan stores; and (v) the increase in the gross profit margin of our other business, as a result of the significant increase in the revenue generated from our online sales business, which generally commands a higher gross profit margin.

Other Income

For the ten months ended October 31, 2022 and 2023, our other income was RMB57.8 million and RMB37.4 million, respectively. The decrease was primarily the result of (i) the decrease in government grants from RMB37.9 million to RMB27.3 million; and (ii) the decrease in interest income from loans to franchisees from RMB7.6 million to RMB0.6 million as a result of the decrease of such loans.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 37.0% from RMB1.0 billion in the ten months ended October 31, 2022 to RMB1.4 billion in the same period of 2023, primarily because (i) the increase in staff costs from RMB248.4 million to RMB360.0 million due to the yearly increase in our staff salary, and the increase in the number of staff, as we opened more self-owned stores; (ii) the increase in logistic costs from RMB111.0 million to RMB203.2 million as driven by (a) our overall expanded scale of operations; and (b) in particular, the expanded scale of operations in Indonesia, where we incurred higher logistic costs on average compared to the domestic market; (iii) the increase in depreciation and amortization expenses from RMB478.9 million to RMB532.6 million, related to (a) the fixed assets in our self-owned stores and (b) our right-of-use assets; the increased depreciation and amortization expenses relating to both (a) and (b) were driven by our expanded self-owned store network; (iv) the increase in other rental expenses and property management fees from RMB89.9 million to RMB157.9 million; (v) the increase in office expenses from RMB37.9 million to RMB53.1 million; and (vi) the increase in advertising expenses from RMB42.8 million to RMB65.6 million. The increases mentioned in (i) to (vi) above were predominantly driven by the expansion of our store network, particularly in connection with our self-owned store network. The number of our self-owned stores grew from 556 stores as of October 31, 2022 to 615 stores as of the same date of 2023.

Administrative and Other Operating Expenses

Our administrative and other operating expenses increased by 22.1% from RMB386.7 million in the ten months ended October 31, 2022 to RMB472.1 million in the same period of 2023, primarily attributable to (i) the increase in staff costs from RMB174.1 million to RMB196.8 million, mainly due to the recruitment of new employees at the headquarters level to support our business growth; (ii) the increase in depreciation and amortization from RMB34.0 million to RMB55.8 million, mainly related to the newly renovated office premise and the franchise rights that arose from the reacquisition of rights that were previously granted to joint ventures. See "— Discussion of Certain Statements of Financial Position Items — Non-current Assets and Non-Current Liabilities — Intangible Assets;" (iii) the decrease in foreign exchange gains from RMB23.7 million to RMB2.8 million due to the fluctuated Chinese yuan against foreign currency, in connection with our business in Indonesia; and (iv) the increase in taxes and surcharges from

RMB6.0 million to RMB26.5 million, in line with the growth in our GMV. The overall increase in administrative and other operating expenses was partially offset by (i) the decrease in other rental expenses and property management fees from RMB32.2 million to RMB17.9 million; (ii) the decrease in professional service fees from RMB50.0 million to RMB44.6 million; (iii) the decrease in impairment losses from RMB27.5 million to RMB21.2 million in relation to reduced store closure; and (iv) the decrease in inventory losses from RMB26.0 million to RMB24.5 million.

As a percentage of revenue, our administrative and other operating expenses decreased from 12.6% for the ten months ended October 31, 2022 to 9.9% for the same period of 2023, primarily due to our improved operational efficiency at headquarters level and our enhanced economies of scale.

Loss/Profit from Operations

As a result of the foregoing, we had profit from operations of RMB376.3 million for the ten months ended October 31, 2023 compared to loss from operation of RMB159.6 million for the same period of 2022.

Finance Costs

Our finance costs remained relatively stable at RMB84.0 million and RMB80.9 million in the ten months ended October 31, 2022 and 2023, respectively.

Share of Losses/Profits from Joint Ventures

We had share of losses from joint ventures of RMB71.8 million for the ten months ended October 31, 2022, and share of profits from joint ventures of RMB11.1 million for the same period of 2023. See "— Description of Select Consolidated Statements of Comprehensive Income Line Items — Share of Losses/Profits from Joint Ventures."

Fair Value Changes of Financial Liabilities Measured at FVTPL

We had fair value gains of financial liabilities measured at FVTPL of RMB456.0 million and fair value losses RMB10.0 million for the ten months ended October 31, 2022 and 2023, respectively. Such fair value gains primarily reflected the decrease in our valuation. See "— Description of Select Combined Statements of Comprehensive Income Line Items — Fair Value Changes of Financial Liabilities Measured at FVTPL."

Income Tax

We had income tax credit of RMB48.0 million for the ten months ended October 31, 2022, compared to income tax expense of RMB87.0 million for the same period of 2023, primarily due to the utilization of the historically accumulated tax losses from certain subsidiaries as we had profit before taxation in the ten months ended October 31, 2023.

Loss/Profit for the Period

As a result of the foregoing, we had net profit of RMB188.6 million and RMB209.4 million in the ten months ended October 31, 2022 and 2023, respectively.

After adding back fair value change of financial liabilities measured at FVTPL and [**REDACTED**], our adjusted net loss (a non-HKFRS measure) was RMB253.7 million for the ten months ended October 31, 2022 and our adjusted net profit (a non-HKFRS measure) was RMB229.8 million for the same period of 2023.

2022 Compared to 2021

Revenue

Our revenue remained relatively stable at approximately RMB3.5 billion and RMB3.6 billion in 2021 and 2022, respectively.

Our revenue generated from the sale of goods increased slightly to RMB3.5 billion in 2022 compared to RMB3.4 billion in 2021. Such increase was primarily attributable to (i) the increased revenue of RMB269.2 million generated from more self-owned stores, which had a net increase of 229 during 2022, in terms of number of stores. See "Business — Self-Owned Stores and Franchise Stores — Movement in the Number of Self-owned Stores;" and (ii) the increased revenue generated from others from RMB50.2 million in 2021 to RMB211.7 million in 2022, mainly reflecting our expanded online sales on two major online-to-offline e-commerce platforms in the PRC. More customers chose to buy merchandise from us through online channels in 2022 as a result of the pandemic control measures implemented in the PRC. The increased revenue generated from self-owned stores in 2022 was partially offset by the decreased revenue generated from franchise stores, primarily because the number of our franchise stores shrunk to 114 as of December 31, 2022 compared to 357 as of the same date of 2021. See "Business — Self-Owned Stores and Franchise Stores — Movement in the Number of Franchise Stores."

Our revenue generated from sales-based management and consultation service income decreased by 27.0% to RMB97.9 million in 2022 from RMB134.1 million in 2021 as a result of the decreased number of franchise stores, in line with our store network optimization strategies. See "Business — Store Network Optimization Initiatives." Management and consultant fees were charged as a percentage of monthly GMV in accordance with respective franchise agreements. See "Business — Network Management and Operations — Store Management — Management of Franchise Stores."

Cost of Sales

Our cost of sales remained relatively stable at RMB2.2 billion and RMB2.1 billion in 2021 and 2022, respectively.

Gross Profit and Gross Profit Margin

Our gross profit increased by 7.7% from RMB1.3 billion in 2021 to RMB1.4 billion in 2022, as a result of the slight increase in revenue and the slight decrease in cost of sales, as mentioned above. The expansion of our business scale enabled us to leverage enhanced bargaining power in order to better manage and control costs of procurement.

Our gross profit margin increased to 40.1% in 2022 from 37.6% in 2021, primarily because (i) the number of our self-owned stores grew from 364 as of December 31, 2021 to 593 as of December 31, 2022, accounting for a larger proportion of the total number of stores within our store network. Compared to franchise stores, self-owned stores generally command higher gross profit margin mainly because the entire store sales of self-owned stores is consolidated into our Group's consolidated financial performance as opposed to a certain percentage in the case of franchise stores under the franchising arrangement; (ii) both self-owned brand merchandise and third party brand merchandise in our product portfolio recorded higher gross profit margins in 2022 mainly as a result of our strengthened bargaining power over suppliers, which was contributed by the continuous expansion of our business scale, for more favorable procurement costs; (iii) in terms of revenue, KKV and X11 stores, which commanded higher gross profit margins than the overall gross profit margin, accounted for a greater percentage of our total revenue in 2022, thus resulting in an improvement of overall gross profit margin; and (iv) to a lesser extent, the increase in the gross profit margin of THE COLORIST stores in 2022 compared to 2021.

Other Income

In 2021 and 2022, our other income was RMB61.2 million and RMB62.3 million, accounting for 1.7% and 1.8% of our revenue in the same years, respectively. The increase primarily resulted from an increase in government subsidies of approximately RMB37.8 million granted by relevant authorities of Shenzhen and Guangzhou, in line with the local policies that support development of companies with foreign investments. Such increase was partially offset by the decrease in interest income from loans to franchisees.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 19.7% from RMB1.1 billion in 2021 to RMB1.3 billion in 2022, primarily attributable to (i) the increase in depreciation and amortization expenses from RMB444.9 million to RMB618.7 million, related to (a) fixed assets in our self-owned stores and (b) our right-of-use assets; (ii) the increase in staff costs from RMB249.6 million to RMB306.2 million; (iii) the increase in advertising expenses from RMB33.4 million to RMB65.3 million; and (iv) the increase in office expenses from RMB39.5 million to RMB47.8 million. The increases mentioned in (i) to (iv) above were predominantly driven by the expansion of our store network, particularly in connection with our self-owned store network. The number of our self-owned stores grew from 364 stores as of December 31, 2021 to 593 stores as of the same date of 2022.

Administrative and Other Operating Expenses

Our administrative and other operating expenses decreased slightly from RMB524.7 million in 2021 to RMB497.5 million in 2022, primarily attributable to (i) foreign exchange gains of RMB21.0 million in 2022 compared to foreign exchange losses of RMB14.8 million in 2021, mainly due to the increased revenue generated from business in Indonesia and the weakened Chinese yuan in 2022; (ii) the decrease in losses from store closures from RMB42.9 million in 2021 to RMB24.1 million in 2022, mainly due to the decreased number of store closed in 2022 compared to 2021; (iii) the decrease in [**REDACTED**] from [**REDACTED**] to [**REDACTED**]; and (iv) the decrease in service charges from RMB11.9 million in 2021 to RMB7.8 million in 2022. The overall decrease in administrative and other operating expenses was partially offset by (i) the increase in professional service fees to RMB52.6 million in 2022 from RMB24.7 million in 2021 mainly due to the payment made to a third-party human resource agency, for recruitment, training and management of in-store staff in China; (ii) the increase in other rental expenses and property management fees to RMB34.4 million in 2022 from RMB22.7 million in 2021, primarily due to the increased rental payments for more warehouses in order to support our store network expansion and enhance operational efficiency; (iii) the increase in depreciation and amortization to RMB36.3

million in 2022 from RMB27.8 million in 2021, primarily because we rented more workspace at headquarters level in 2022 to support our expanded business operations; and (iv) the increase in impairment losses to RMB48.0 million in 2022 from RMB45.7 million in 2021 related to our right-of-use assets and leasehold improvements at store-level.

As a percentage of revenue, our administrative and other operating expenses decreased from 14.9% in 2021 to 14.0% in 2022.

Loss from Operations

As a result of the foregoing, our loss from operations increased from RMB237.5 million in 2021 to RMB322.8 million in 2022.

Finance Costs

Our finance costs increased by 13.1% from RMB91.5 million in 2021 to RMB103.5 million in 2022, primarily due to the increase in interest on lease liabilities from RMB73.1 million in 2021 to RMB91.1 million in 2022. The increased interest on lease liabilities was predominantly attributable to the increase in number of our leased properties, mainly as a result of our self-owned store network expansion. We recognize lease liabilities as part of our obligation to make lease payments. The overall increase in finance costs was partially offset by the decrease in interest on loans and borrowings from RMB18.4 million in 2021 to RMB12.4 million in 2022, because we settled our bank borrowings due in 2022.

Share of Losses from Joint Ventures

We recognized share of losses from joint ventures in the sum of RMB32.3 million and RMB81.7 million in 2021 and 2022, respectively. For details, see "— Description of Select Consolidated Statements of Comprehensive Income Line Items — Share of Losses/Profits from Joint Ventures."

Fair Value Changes of Financial Liabilities Measured at FVTPL

Our fair value changes of financial liabilities measured at FVTPL were a loss of RMB5.4 billion and a gain of RMB489.2 million in 2021 and 2022, respectively. Such fair value change primarily reflected the decrease in our valuation. See "— Description of Select Combined Statements of Comprehensive Income Line Items — Fair Value Changes of Financial Liabilities Measured at FVTPL."

Income Tax

In 2021 and 2022, we recorded income tax credit in the sum of RMB36.8 million and RMB80.6 million, respectively. The increase in our income tax credit was primarily due to the increase in our deferred tax in 2022. Our deferred tax increased significantly from RMB43.6 million in 2021 to RMB89.5 million in 2022 primarily due to increased tax losses recognized by our subsidiaries, as affected by the COVID-19-related pandemic control measures implemented in various cities in China, among other reasons. According to the PRC Tax Law, tax losses incurred by an entity in a year may be deducted from its taxable income in the succeeding five years, based on which we estimated our deferred tax credits for each year.

Loss/Profit for the Year

As a result of the foregoing, we had net loss of RMB5.7 billion and net profit of RMB61.9 million in 2021 and 2022, respectively.

After adding back fair value change of financial liabilities measured at FVTPL and [**REDACTED**], our adjusted net losses (a non-HKFRS measure) in 2021 and 2022 were RMB303.9 million and RMB412.3 million, respectively.

2021 Compared to 2020

Revenue

Our revenue increased significantly by 114.1% from RMB1.6 billion in 2020 to RMB3.5 billion in 2021.

Our revenue from the sale of goods increased substantially to RMB3.4 billion in 2021, compared to RMB1.6 billion in 2020. Such increase was primarily due to (i) a significant expansion of our store network, particularly the opening of 149 new KKV stores and 63 new THE COLORIST stores from December 31, 2020 to December 31, 2021, which increased our sale of goods during the period; and (ii) to a lesser extent, the increased sale of goods in our X11 stores in 2021, compared to the same in 2020, as a result of the increased market demand for our products offerings at X11 stores and the new opening of 32 X11 stores in 2021; which was partially offset by (i) a decrease in revenue generated from sale of goods under our KK Guan brand due to store closures, because we were reallocating strategic resources between our retail brands, with a focus on development of our KKV and THE COLORIST brands; and (ii) a decrease in revenue generated by online sales business due to the reorganization of such business in the second half of 2020.

Our revenue from sales-based management and consultation service income increased substantially to RMB134.1 million in 2021, compared to RMB79.8 million in 2020, primarily due to the increase in the number of, and the revenue generated from our franchise stores in operation during 2021. Such management and consultant fees were charged as a percentage of monthly GMV in accordance with respective franchise agreements. For details, see "Business — Network Management and Operations — Store Management — Management of Franchise Stores."

Cost of Sales

Our cost of sales increased substantially to RMB2.2 billion in 2021 compared to RMB1.1 billion in 2020, which was generally in line with the expansion of our business operations, particularly the increase in the number of retail stores within our store network.

Gross Profit and Gross Profit Margin

Our gross profit increased substantially from RMB499.7 million in 2020 to RMB1.3 billion in 2021, primarily because (i) our revenue generated from our business operations grew significantly, in line with an increase in the number of retail stores; (ii) our business operations were negatively affected by the outbreak of COVID-19 pandemic in China in 2020, during which period relevant local authorities nationwide implemented pandemic control measures and social distancing policies in a number of cities, resulting in temporary closures of our retail stores in early 2020; and (iii) we launched quick ramp-up plan for development of our KKV and THE COLORIST brands, and many of our stores under these two brand were still at their early ramp-up stage during 2020.

Our gross profit margin increased to 37.6% in 2021 from 30.4% in 2020, primarily because (i) we achieved greater economies of scale by continuous store expansion over the course of time; and (ii) in terms of revenue contribution, KKV and THE COLORIST stores, which commanded relatively higher gross profit margin, accounted for a greater percentage of our total revenue, thus contributing to the improvement of overall gross profit margin.

Other Income

In 2020 and 2021, our other income was RMB34.9 million and RMB61.2 million, accounting for 2.1% and 1.7% of our revenue, respectively. The increase primarily resulted from (i) an increase in interest from loans to franchisees from RMB30.0 million in 2020 to RMB39.7 million in 2021, due to the increase in the number of our franchise stores in 2021. For details of our loans to franchisees during the Track Record Period, see "Business — Self-owned Stores and Franchise Stores — Financial Support Provided to Franchisees;" (ii) an increase in renovation income from RMB1.7 million in 2020 to RMB9.3 million in 2021, driven by our expanded store network; (iii) an increase in interest income from other investments from nil in 2020 to RMB1.9 million in 2021, as we purchased more wealth management products; and (iv) an increase in interest income from deposits and cash equivalents from RMB0.5 million in 2020 to RMB3.5 million in 2021.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 177.7% from RMB395.3 million in 2020 to RMB1.1 billion in 2021, primarily attributable to (i) the increase in depreciation and amortization expenses which primarily related to our fixed assets in the retail stores and right-of-use assets such as the leases of the retails stores from RMB199.7 million in 2020 to RMB444.9 million in 2021, as a result of an increase of our self-owned stores from 132 stores as of December 31, 2020 to 364 stores as of December 31, 2021; (ii) the increase in logistics costs from RMB89.6 million in 2020 to RMB164.5 million in 2021; (iii) the increase in staff costs from RMB70.0 million in 2020 to RMB249.6 million in 2021; (iv) the increase in other rental expenses and property management fees from minus RMB15.9 million in 2020 to RMB115.9 million in 2021; and (v) the increase in office expenses from RMB10.9 million in 2020 to RMB39.5 million in 2021. All increases mentioned above were driven by our business expansion, particularly the opening of new stores during this period.

Administrative and Other Operating Expenses

Our administrative and other operating expenses increased from RMB281.9 million in 2020 to RMB524.7 million in 2021, primarily attributable to (i) the increase in staff costs from RMB114.9 million in 2020 to RMB210.4 million in 2021, mainly due to the increase in total number of our employees at headquarter level from 971 as of December 31, 2020 to 1,209 as of December 31, 2021; (ii) the increase in impairment loss from RMB18.5 million in 2020 to RMB45.7 million in 2021, mainly because of the impairment of our property, plant and equipment and right-of-use assets; (iii) the increase in losses from store closures from RMB17.8 million in 2020 to RMB42.9 million in 2021, as we continued to optimize our store network; (iv) the increase in [**REDACTED**] from [**REDACTED**] to [**REDACTED**]; (v) the increase in foreign exchange losses from RMB1.4 million in 2020 to RMB14.8 million in 2021 due to the appreciated Chinese yuan in 2021, in connection with our business in Indonesia; (vi) the increase in depreciation and amortization expenses in connection with our office premises and leased properties from RMB23.3 million in 2020 to RMB27.8 million in 2021 as a result of our business operation expansion; and (vii) the increase in professional service fees from RMB20.9 million in 2020 to RMB24.7 million in 2021, primarily due to payments made to professional parties in connection with [**REDACTED**]. For details about our past rounds of financing, see "History, Reorganization and Corporate Structure — Our Corporate History and Major Shareholding Changes of Our Group."

As a percentage of revenue, our administrative and other operating expenses decreased from 17.1% in 2020 to 14.9% in 2021, primarily due to various cost-effective measures adopted by us and our improved operational efficiency at headquarter level.

Loss from Operations

Our loss from operations increased from RMB142.5 million in 2020 to RMB237.5 million in 2021, primarily because we made substantial initial investments to drive rapid growth of our store network, enhance brand awareness and lay a solid foundation at both headquarter level and store level to support future expansion and to improve operating efficiency, which we believe is indispensable to establish compelling competitive advantages and capitalize on attractive market opportunities for our long-term profitable growth.

Finance Costs

Our finance costs increased by 86.2% from RMB49.2 million in 2020 to RMB91.5 million in 2021, primarily due to (i) the increase in interest on lease liabilities from RMB35.2 million in 2020 to RMB73.1 million in 2021 related to leased properties; and (ii) to a lesser extent, the increase in interests on loans and borrowings from RMB14.0 million in 2020 to RMB18.4 million in 2021, primarily due to our continued debt financing to support our business operation and expansion.

Share of Losses from Joint Ventures

We recognized share of losses from joint ventures in the sum of RMB16.2 million and RMB32.3 million in 2020 and 2021, respectively, as some of our joint ventures were still at their early stage of development. Our share of losses from joint ventures in 2020 was considerably less than that in 2021, primarily due to the rent concessions received by our joint ventures in 2020 in view of the COVID-19 pandemic.

Fair Value Changes of Financial Liabilities Measured at FVTPL

Our fair value changes of financial liabilities measured at FVTPL were a loss of RMB1.8 billion and RMB5.4 billion in 2020 and 2021, respectively. As our valuation increased, the financial liabilities measured at FVTPL also increased, resulting in fair value changes of financial liabilities measured at FVTPL. See "— Description of Select Consolidated Statements of Comprehensive Income Line Items — Fair Value Changes of Financial Liabilities Measured at FVTPL."

Income Tax

In 2020 and 2021, we recorded income tax credit in the sum of RMB33.2 million and RMB36.8 million, respectively. The increase in our income tax credit was primarily due to the increase in our deferred tax in 2021, partially offset by an increase in our current tax. Our current tax increased from RMB1.9 million in 2020 to RMB6.8 million in 2021, primarily because more subsidiaries in our Group achieved profitability in 2021. Our deferred tax increased by 24.4% from RMB35.0 million in 2020 to RMB43.6 million in 2021 primarily due to the increased tax losses recognized by our subsidiaries due to the expansion of our store network. According to the PRC Tax Law, tax losses incurred by an entity in a year may be deducted from its taxable income in the succeeding five years, based on which we estimated our deferred tax credits for each year.

Loss for the Year

As a result of the foregoing, we had net loss of RMB2.0 billion and RMB5.7 billion in 2020 and 2021, respectively.

After adding back fair value change of financial liabilities measured at FVTPL and [**REDACTED**], our adjusted net losses (a non-HKFRS measure) in 2020 and 2021 were RMB171.4 million and RMB303.9 million, respectively.

DISCUSSION OF CERTAIN STATEMENTS OF FINANCIAL POSITION ITEMS

As of January 1, 2020, we recorded net liabilities of RMB711.6 million primarily as a result of our accumulated loss of RMB640.5 million as of the same date. The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our consolidated financial statements included in the Accountants' Report in Appendix I to this document:

	As of December 31,			As of October 31,
	2020	**2021**	**2022**	**2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Total non-current assets	1,901,291	2,894,250	3,497,308	2,797,057
Total current assets	1,213,077	2,764,240	1,901,786	2,294,667
Total assets	**3,114,368**	**5,658,490**	**5,399,094**	**5,091,724**
Total non-current liabilities	(4,865,698)	(12,516,953)	(12,349,843)	(11,905,251)
Total current liabilities	(958,479)	(1,313,682)	(1,412,037)	(1,404,002)
Total liabilities	**(5,824,177)**	**(13,830,635)**	**(13,761,880)**	**(13,309,253)**
Net current assets	**254,598**	**1,450,558**	**489,749**	**890,665**
Total deficit attributable to equity shareholders	(2,747,495)	(8,350,967)	(8,394,716)	(8,222,001)
Non-controlling interests	37,686	178,822	31,930	4,472
Net liabilities	**(2,709,809)**	**(8,172,145)**	**(8,362,786)**	**(8,217,529)**

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 October 31,	As of November 30,
	2020	2021	2022	2023	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 *(Unaudited)*
Current assets					
Inventories	740,860	1,101,414	923,013	764,752	810,110
Trade and other receivables	303,856	746,148	511,266	559,049	592,696
Cash and cash equivalents	168,294	465,707	248,073	806,325	689,425
Income tax recoverable	37	–	–	–	–
Restricted bank deposits	30	147,971	208,867	155,063	133,053
Other investments	–	303,000	10,567	9,478	9,478
Total current assets	**1,213,077**	**2,764,240**	**1,901,786**	**2,294,667**	**2,234,762**
Current liabilities					
Trade and other payables	486,180	808,336	774,492	757,269	710,375
Contract liabilities	–	–	–	43,088	43,451
Loans and borrowings	305,346	186,667	156,323	135,615	135,615
Lease liabilities	165,325	312,590	470,195	425,290	429,606
Current taxation	1,628	6,089	11,027	42,740	47,773
Total current liabilities	**958,479**	**1,313,682**	**1,412,037**	**1,404,002**	**1,366,820**
Net current assets	**254,598**	**1,450,558**	**489,749**	**890,665**	**867,942**

Our net current assets decreased slightly from RMB890.7 million as of October 31, 2023 to RMB867.9 million as of November 30, 2023. The decrease was mainly due to (i) the decrease in our cash and cash equivalents from RMB806.3 million as of October 31, 2023 to RMB689.4 million as of November 30, 2023, as we provided more funding for our new store opening and inventory procurement; and (ii) the decrease in restricted bank deposit. The decrease in net current assets was partially offset by the decrease in trade and other payables and the increase in inventories.

Our net current assets increased from RMB489.7 million as of December 31, 2022 to RMB1,404.0 million as of October 31, 2023. The increase was mainly due to the increase in cash and cash equivalents from RMB248.1 million as of December 31, 2022 to RMB806.3 million as of October 31, 2023, primarily because of the improved results of operations in China after the pandemic control measures were lifted. The increase in net current assets was partially offset by the decrease in inventories from RMB923.0 million as of December 31, 2022 to RMB764.8 million as of October 31, 2023, as driven by the improved business performance of our retail stores.

Our net current assets decreased by 66.2% to RMB489.7 million as of December 31, 2022 from RMB1.5 billion as of December 31, 2021, primarily due to (i) the decrease in other investments from RMB303.0 million as of December 31, 2021 to RMB10.6 million as of December 31, 2022 as a result of disposal of wealth management products due in 2022; (ii) the decrease in trade and other receivables from RMB746.1 million as of December 31, 2021 to RMB511.3 million as of December 31, 2022, reflecting decrease in amounts due from franchisees as a result of set-off arrangement and amounts due from joint ventures as a result of debt conversion arrangement; (iii) the decrease in cash and cash equivalents from RMB465.7 million as of December 31, 2021 to RMB248.1 million as of December 31, 2022; (iv) the decrease in our inventories from RMB1.1 billion as of December 31, 2021 to RMB923.0 million as of December 31, 2022; and (v) the increase in current proportion of lease liabilities to RMB470.2 million as of December 31, 2022 from RMB312.6 million as of December 31, 2021; partially offset by the decrease in trade and other payables and the increase in restricted bank deposits.

Our net current assets increased significantly from RMB254.6 million as of December 31, 2020 to RMB1.5 billion as of December 31, 2021, primarily due to (i) the increase in cash and cash equivalents from RMB168.3 million as of December 31, 2020 to RMB465.7 million as of December 31, 2021, as a result of the net proceeds received in connection with series F financing; (ii) the increase in trade and other receivables from RMB303.9 million as of December 31, 2020 to RMB746.1 million as of December 31, 2021 in relation to our business expansion and increased sale of goods; and (iii) the increase in inventories driven by our business growth.

We had net liabilities in an amount of RMB2.7 billion, RMB8.2 billion, RMB8.4 billion, RMB8.2 billion as of December 31, 2020, 2021 and 2022 and October 31, 2023. Such net liability position resulted primarily from our redemption liabilities and convertible redeemable preferred shares associated with [**REDACTED**], and to a lesser extent, our loss from operations in 2020, 2021 and 2022.

We expect to have a net asset position upon the [**REDACTED**] because all our financial liabilities measured at FVTPL in the amount of RMB10.6 billion as of October 31, 2023, which were recorded as our non-current liabilities, will be re-designated from liabilities to equity.

Inventories

Our inventories consisted of (i) merchandise, which we purchase from Third Party Brand Suppliers and our OEM and ODM contractors for sales or display to our customers; and (ii) low-value consumables such as stationery and packaging materials. In general, our inventory turnover days is higher compared to other peers in the market, because we place a large volume of merchandise for display in our retail stores as part of our aesthetic business philosophy. In terms of retail store layouts, we present our merchandise in aesthetic styles, such as pyramids and display walls, to provide satisfying shopping experiences to our customers. See "Business — Logistics and Inventory Management — Inventory Control" for details on our inventory management, and "Business — Our Retail Brands" for pictures illustrating aesthetic merchandise display in our retail stores.

The following table sets forth a breakdown of our total inventories as of each date indicated:

	As of December 31,			As of October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Merchandise	727,168	1,071,034	913,127	755,285
Low-value consumables	13,692	30,380	9,886	9,467
Total	**740,860**	**1,101,414**	**923,013**	**764,752**

Our inventories increased by 48.7% from RMB740.9 million as of December 31, 2020 to RMB1.1 billion as of December 31, 2021, primarily due to increased demands for our merchandise as a result of our retail store network expansion. Our inventories decreased by 16.2% from RMB1.1 billion as of December 31, 2021 to RMB923.0 million as of December 31, 2022, as we adopted a prudent approach to manage our inventory levels and reduced procurement volume of merchandise, in light of the COVID-19-related pandemic control measures implemented in various cities in China in 2022. Our inventories decreased by 17.1% from RMB923.0 million as of December 31, 2022 to RMB764.8 million as of October 31, 2023, primarily because of the increased sales value generated by our store network for the ten months ended October 31, 2023.

The following table sets forth an ageing analysis of inventories as of the dates indicated:

	As of December 31,			As of October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	697,910	877,107	793,405	698,412
Over one year	42,950	58,780	129,608	66,340
Total	**740,860**	**1,101,414**	**923,013**	**764,752**

The following table sets forth our inventory turnover days for the years and the period indicated:

	Year Ended December 31,			Ten Months Ended October 31,
	2020	2021	2022	2023
Inventory turnover days(1)	196	154	175	102

Note:

(1) Inventory turnover days for each one-year period equals the average of the beginning and ending inventory, excluding write-down of inventories, for that year divided by carrying amount of inventories sold for the same year and multiplied by 365 days. Inventory turnover days for a ten-month period equals the average of the beginning and ending inventory, excluding write-down of inventories, for that period divided by carrying amount of inventories sold for the same period and multiplied by 300 days.

Our inventory turnover days decreased from 196 days in 2020 to 154 days in 2021, primarily because we implemented a series of measures to improve our inventory management, such as adoption of frequent procurement policy, reduction in purchase value of each procurement, and continuous expansion and better utilization of our national and regional warehouse network. Our inventory turnover days increased to 175 days in 2022, mainly as a result of newly transmitted Omicron strain of the COVID-19 cases leading to temporary store closures in various cities in China since early 2022. Our inventory turnover days decreased to 102 days for the ten months ended October 31, 2023, mainly due to the impact of the increased sales value generated by our store network for the ten months ended October 31, 2023.

Major inventory management measures implemented by us in business operations are set forth as follows:

- closely track and monitor stock level of inventory with the help of technological solutions, such as KPOS system for retail stores and WMS system for warehouses;

- constantly improve operational efficiency of warehouse management, by adjusting layout of warehouses in accordance with evolving merchandise portfolio;

- regularly conduct inventory check to ensure accurate stock level of inventory on balance sheet, and record inventory gains or losses in income statement, in a timely manner. Inventory check is conducted in warehouses on a daily basis, and in retail stores on a quarterly basis. An annual comprehensive inventory check is also conducted in both warehouses and retail stores at the end of the year, in order to help us have a good grasp of the effectiveness of our inventory management measures; and

- carefully perform statistical analysis of sales and inventory data, in order to identify and tackle inventory management challenges. Data-driven methods are applied to develop effective inventory management strategies.

Having considered that (i) the improvement of our inventory turnover days for the ten months ended October 31, 2023 compared to previous years, (ii) the consistency between our inventory turnover days for the ten months ended October 31, 2023 and the subsequent utilization or sale of inventories, we believe that there was no significant recoverability issue for inventories during the Track Record Period. We also regularly assess inventory impairment to reflect the net realizable value of our inventories. We record write-down of inventories when the estimated net realizable value is less than cost. In determining write-down of inventories, we consider a number of factors, including but not limited to, inventory aging and expiration date. In 2020, 2021 and 2022 and for the ten months ended October 31, 2023, we recognized a provision for impairment of inventories of RMB1.4 million, RMB5.4 million, RMB3.9 million, and RMB2.6 million, respectively. We believe that sufficient provision for inventories has been made in a timely manner. For more information on our inventory management, see "Business — Logistics and Inventory Management."

As of November 30, 2023, RMB266.6 million, or 34.9% of our inventory balance as of October 31, 2023 had been subsequently sold or utilized.

Other Investments

During the Track Record Period, our other investments primarily consisted of (i) our investments in wealth management products and (ii) the security investments in the equity of certain entity. The following table sets forth the balance of our other investments as of the dates indicated:

	As of December 31,			As of October 31,
	2020	**2021**	**2022**	**2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Financial assets measured at FVTPL				
Wealth management products	–	293,000	–	–
Equity securities	–	10,000	10,567	9,478
Total	**–**	**303,000**	**10,567**	**9,478**

Our other investments were nil, RMB303.0 million, RMB10.6 million, RMB9.5 million as of December 31, 2020, 2021 and 2022 and October 31, 2023, respectively. All our wealth management products had reached maturity as of December 31, 2022, resulting in the decrease in the balance of other investments as of December 31, 2022 compared to December 31, 2021. The fluctuation in the balance of other investment from December 31, 2022 to October 31, 2023 was the reflection of the fair value change in the valuation of an investee company.

During the Track Record Period, our wealth management products mainly represented investment vehicles issued by either commercial banks or other licensed financial institution in China. Denominated in Renminbi, these wealth management products were backed by a certain or a combination of underlying financial assets such as bonds, currencies, market indexes and other asset management products, without principals or returns being guaranteed. The wealth management products in our portfolio generally bear low-to-medium risks, depending on allocation of the relevant underlying assets. We historically purchased and held short-term wealth management products only, which required a holding period less than 12 months before maturity. With a floating return, the expected yields on our wealth management products typically ranged from 1.5% to 5.0%. We made such investments in wealth management products during the Track Record Period, with a view to flexible liquidity management with enhanced yield.

The balance of our equity securities mainly represented our investment in a pop culture designer and operator as of the respective dates. We entered into a share purchase agreement in October 2021, and later became its minority shareholder. Such investee company primarily focuses on creating and operating IPs with Chinese characteristics by integrating traditional Chinese arts with modern pop culture. We made such equity investments during the Track Record Period, with an aim of (i) creating and developing our own IPs for pop toy retail markets; (ii) achieving greater synergy between our X11 brand and investee company; and (iii) expanding into upstream industry value-chain of pop toys and pop art products retailing.

Our other investments made during the Track Record Period were completely funded with our own liquid capital, free of any external financing, such as bank loans or other borrowings. After the [**REDACTED**], any investment in wealth management products and equity securities by our Group will be subject to the requirements under Chapter 14 of the Listing Rules.

Our Treasury and Investment Policies

We have implemented investment and treasury policies regarding the use of our cash. First, we consistently maintain a sufficient level of cash at our bank account for the Group's operations for the next three to six months. Second, we purchase wealth management products with low risk and strong liquidity with most of our remaining cash. Third, we would consider investment into wealth management products with relatively longer maturity, if we have extra cash. Fourth, we would consider equity investment opportunities as and when our Directors deem appropriate.

In respect of our investments into wealth management products, we have implemented internal control measures to review and monitor our investment risks. Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, including but not limited to macro-economic environment, overall financial conditions and market environments, cost and duration of investment, risk control and credit of potential investee companies, our working capital conditions, and the expected profit or potential loss of such investments. After decision on one particular investment is made, we generally designate personnel to review and monitor the investment risk. In particular, in assessing any particular investment opportunity, we generally take into account several factors, including but not limited to the following:

- our budget planning and working capital requirements;
- adequate cash on hand so that any short-term working capital demands of our Group would not be disturbed;
- investment vehicles with low or low-to-medium risks, mainly offered by reputable financial institutions which have a large scale of operations, strong overall financial strength, and good credit standing;
- the expected yield of the wealth management products; and
- relevant departments' proposals, strategic investment department's review of such proposals, management and president's approval, as well as board of directors' decision.

Trade and Other Receivables

The following table sets forth a breakdown of the current portion of our trade and other receivables as of each date indicated:

	As of December 31,			As of October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables, net of loss allowance	461	30,302	179,811	178,514
Rental deposits	4,482	7,011	11,914	28,445
Input value-added tax and other tax recoverable	55,527	60,249	63,359	87,993
Amounts due from Directors(1)	16,046	–	–	–
Prepayments to suppliers	72,292	188,632	147,199	200,645
Amounts due from franchisees(2)	91,374	190,015	60,871	24,720
Amounts due from joint ventures(2)	47,172	231,269	–	–
Loans to franchisees(3)	9,921	7,500	–	–
Others	6,581	31,170	48,112	38,732
Total	**303,856**	**746,148**	**511,266**	**559,049**

Notes:

(1) Outstanding amounts due from Directors, Mr. Wu and Mr. Guo. Such balances were unsecured, interest-free and had been settled as of December 31, 2021.

(2) Amounts due from franchisees and joint ventures are non-trade in nature, unsecured, interest-free and will be recovered within one year.

(3) Loans to franchisees are non-trade in nature, unsecured and interest-bearing and will be recovered within one year.

Trade Receivables

Our trade receivables primarily arise from credit sales of our merchandise to third parties. The relatively large balance of our trade receivables as of December 31, 2022 and October 31, 2023 resulted principally from sales to KKV stores in Indonesia after July 1, 2022. See "Business — Our Retail Brands — KKV — KKV Stores in Indonesia." As a result of the disposal of our subsidiary in Indonesia, from July 1, 2022, we began to record trade receivables due to the goods sold to Indonesia. We seek to maintain strict control over our outstanding receivables. Overdue balances are reviewed regularly by management. Our trade receivables are in general unsecured and non-interest-bearing. We do not hold any collateral or other credit enhancements over our trade receivable balances.

The following table sets forth an aging analysis of our trade receivables (net of loss allowance) based on the invoice date as of the dates indicated:

	As of December 31,			As of October 31, 2023
	2020	2021	2022	
	RMB'000	RMB'000	RMB'000	RMB'000
Undue	461	30,302	179,811	157,449
Past due within three months	–	–	–	15,903
Past due three to ten months	–	–	–	5,162
Total	**461**	**30,302**	**179,811**	**178,514**

The following table sets forth our trade receivables turnover days for the years and period indicated:

	Year Ended December 31,			Ten Months Ended October 31, 2023
	2020	2021	2022	
Trade receivables turnover days[1]	0.1	1.6	4.5	3.5

Note:

(1) Trade receivables turnover days (excluding sales to KKV stores in Indonesia that began from July 1, 2022) for each period equals the average of the beginning and ending balances of trade receivables for that period divided by revenue for that period and multiplied by the number of days in that period. The turnover days of sales to KKV stores in Indonesia that began from July 1, 2022 were 84 days and 94 days in the second half of 2022 and for the ten months ended October 31, 2023, respectively.

During the Track Record Period, trade receivables turnover days (excluding sales to KKV stores in Indonesia that began from July 1, 2022) were 0.1 day, 1.6 days, 4.5 days and 3.5 days in 2020, 2021 and 2022 and for the ten months ended October 31, 2023, respectively. Our trade receivables turnover was relatively efficient mainly because (i) for our self-owned stores, we usually require cash payment from end customers upon checkout of merchandise; and (ii) for franchise stores in the PRC, the franchisees, in accordance with relevant franchise agreements, do not own legal title of merchandise that we dispatch to their premises until the moment end customers make purchases, which causes transfer of ownership to franchisees and then to end customers immediately. The increase in trade receivables turnover days (excluding sales to KKV stores in Indonesia that began from July 1, 2022) in 2022 compared to 2021 was mainly driven by our expanded domestic bulk purchasing business, because we generally grant a credit period to our corporate customers.

In respect of our business operation in Indonesia, we grant the local business partner a credit period as long as 90 days, which resulted in trade receivable turnover days of 84 days and 94 days in the second half of 2022 and the first half of 2023, respectively. As of December 31, 2022 and October 31, 2023, substantially all our trade receivables represented the trade receivables due from our local business partner in Indonesia.

We believe that we did not have any significant recoverability issue relating to trade receivables during the Track Record Period, on the basis that (i) the turnover days of outstanding trade receivables during the Track Record Period were mostly within the credit period that we granted to customers; (ii) we were unaware of any matter that might have negative indication of, or adverse effect on the overall quality and creditworthiness of customers, whom we had trade receivables due from; (iii) the settlement rate of our trade receivables during the Track Record Period was consistent with the historical patterns; and (iv) we did not experience any material difficulties in collecting trade receivables from our customers during the Track Record Period.

At each reporting date during the Track Record Period, we performed expected credit loss ("**ECL**") analysis for trade receivables in accordance with HKFRS 9. We considered the ECL rate for trade receivables to be insignificant — close to zero, after taking into account that (i) we did not have any significant recoverability issue relating to trade receivables, as discussed above; (ii) there had been no material adverse change on the overall quality and creditworthiness of our customers; and (iii) we did not recognize significant credit losses for trade receivables in the past, and the settlement rate of trade receivables was consistent with history patterns.

As of November 30, 2023, RMB46.9 million, or 26.0% of our trade receivables outstanding as of October 31, 2023 had been subsequently collected.

Rental Deposits

Our rental deposits mainly related to deposits we lodged in connection with leased properties for our own use, such as retail stores and office premises. Our current rental deposits was RMB4.5 million, RMB7.0 million, RMB11.9 million, RMB28.4 million as of December 31, 2020, 2021 and 2022 and October 31, 2023, respectively. The increase was mainly attributable to the increase in number of our self-owned stores as a result of our business and store network expansion.

Input VAT Recoverable and Other Tax Recoverable

Our input VAT recoverable mainly represented VAT related to inventories purchases that could be recovered. The fluctuated balance of our input VAT recoverable during the Track Record Period was generally in line with changes in our inventory balance.

Our other tax recoverable mainly represented our prepaid corporate income tax we made, as requested by the local tax authorities in Indonesia.

As of November 30, 2023, RMB51.8 million, or 75.8% of input VAT recoverable and other tax recoverable outstanding as of October 31, 2023, had been subsequently settled.

Amounts due from Directors

The amounts due from Directors mainly represented advance from members of the Single Largest Shareholders Group, namely Mr. Wu and Mr. Guo, to our Group during the Track Record Period. Such amounts were unsecured, interest-free, and non-trade in nature.

As of December 31, 2021, our outstanding balance with Mr. Wu and Mr. Guo had been fully settled.

Prepayments to Suppliers

Our prepayments to suppliers mainly represented (i) advance payment that we made for merchandise procurement; and (ii) advance payment we made for online advertising and promotional services, during the Track Record Period. The significant increase in prepayments to suppliers as of December 31, 2021 compared to December 31, 2020 was mainly driven by our expanded business scale. Our prepayments to suppliers decreased from RMB188.6 million as of December 31, 2021 to RMB147.2 million as of December 31, 2022, mainly because we controlled our procurement of merchandise in a more prudent manner due to the business uncertainties caused by the COVID-19 pandemic. Our prepayments to suppliers increased from RMB147.2 million as of December 31, 2022 to RMB200.6 million as of October 31, 2023, as driven by our expansion plan and improved results of operations in 2023.

As of November 30, 2023, RMB27.2 million, or 13.8% of prepayments to suppliers outstanding as of October 31, 2023, had been subsequently settled.

Amounts due from Franchisees

Amounts due from franchisees consisted primarily of:

- payment we made on behalf of (i) franchise stores, both those with investment and those without investment and (ii) our non-wholly owned stores; and
- the amount reclassified from amounts due from joint ventures through debt conversion arrangement in 2022 as discussed below.

These payments mainly include (i) rental expense, staff cost, and other miscellaneous day-to-day operating expenses of the retail stores; and (ii) initial store decoration and opening related expenses. Such amount was non-interest bearing and unsecured.

The table below sets forth the changes in the balance of amounts due from franchisees and its movement, as of the dates or for the years and period indicated:

	Year Ended/As of December 31,			Ten Months Ended/As of October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from franchisees				
Beginning of the year/period	54,683	91,374	190,015	60,871
Net increase/(decrease) from routine advance and subsequent collection	36,691	98,641	12,979	(1,044)
Increase through debt conversion arrangement	–	–	112,790	–
Repayment through set-off arrangement	–	–	(254,913)	35,107
End of the year/period	91,374	190,015	60,871	24,720

Our amounts due from franchisees increased from RMB91.4 million as of December 31, 2020 to RMB190.0 million as of December 31, 2021 primarily due to (i) the increase in the number of retail stores and (ii) the disruption brought to our retail stores by the COVID-19 pandemic.

Our amounts due from franchisees decreased from RMB190.0 million as of December 31, 2021 to RMB60.9 million as of December 31, 2022, primarily due to set-off arrangement where outstanding amounts due from franchisees amounting to RMB254.9 million was used as consideration for acquisition of equity interests owned by relevant franchisees and minority shareholders in four joint ventures and 10 non-wholly owned subsidiaries, partially offset by the debt conversion arrangement.

Our amounts due from franchisees further decreased from RMB60.9 million as of December 31, 2022 to RMB24.7 million as of October 31, 2023, primarily due to the set-off arrangement where outstanding amounts due from franchisees of RMB35.1 million were used as consideration for acquisition of equity interests in one joint venture and four non-wholly owned subsidiaries. We carried out these transactions in line with our store network optimization initiatives, where we benefited from enhanced control and management over relevant stores that we believe may result in long-term investment return.

For more details on our initiatives to optimize our store network, see "Business — Store Network Optimization Initiatives." For more details on the acquisition transactions, see "History, Reorganization and Corporate Structure — Major Acquisitions, Disposals and Mergers — Acquisitions of Joint Ventures and Non-wholly Owned Subsidiaries" and "Business — Store Network Optimization Initiatives." For more detail on debt conversion arrangement and advance payment, see "— Amounts Due from Joint Ventures" and "Business — Self-owned Stores and Franchise Stores — Financial Support Provided to Franchisees."

In 2021, a provision for doubtful debts in the amount of RMB14.0 million was made for the amounts due from franchisees, which represented the expected credit loss assessed by us after considering various factors, including length of store operation, store performance, amount of operating loss and existing market conditions. In 2022, we recorded a reversal of provision of RMB14.0 million along with the settlement of the relevant balance of the amounts due from franchisees and made a provision of RMB7.0 million for doubtful debts for the amounts due from franchisees. For the ten months ended October 31, 2023, we recorded a reversal of provision of RMB3.0 million along with the settlement of the relevant balance of amounts due from franchisees.

In 2020, 2021 and 2022 and for the ten months ended October 31, 2023, RMB6.3 million, RMB30.4 million, RMB12.1 million, and nil was written off from the amounts due from franchisees, respectively, when there is no reasonable expectation of recovery.

As of November 30, 2023, RMB4.8 million, or 19.3% of amounts due from franchisees outstanding as of October 31, 2023, had been subsequently settled.

Amounts due from Joint Ventures

Amounts due from joint ventures mainly represented payments we made on behalf of our joint ventures in respect of (i) rental expense, staff cost, and other miscellaneous day-to-day operating expenses; and (ii) initial store decoration and opening-related expenses. See "Business — Self-owned Stores and Franchise Stores — Financial Support Provided to Franchisees." Such amount was non-interest bearing and unsecured. The table below sets forth the changes in the balance of amounts due from joint ventures and its movement, as of the dates or for the periods indicated:

	Year Ended/As of December 31,			Ten Months Ended/As of October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from joint ventures				
Beginning of the year/period	–	47,172	231,269	–
Net increase/(decrease) from routine advance and subsequent collection	47,172	184,097	(5,689)	–
Decrease through debt conversion arrangement	–	–	(225,580)	–
End of the year/period	47,172	231,269	–	–

Our amounts due from joint ventures increased from RMB47.2 million as of December 31, 2020 to RMB231.3 million as of December 31, 2021, primarily because a high proportion of franchise stores set under the joint ventures were still in the ramp-up period which was disrupted by the impact of the COVID-19 pandemic.

In 2022, we entered into a set of debt conversion agreements with 11 joint ventures where each of the relevant 11 franchisees and us held 50% of the shares respectively, given that our franchise stores with investment generally had a higher gross profit margin than that of franchise stores without investment. See "Business — Self-owned Stores and Franchise Stores — Franchise Stores."

The principal terms in the debt conversion agreements include:

(i) half of the balance of amounts due from joint ventures will be converted into our investment in the relevant joint venture;

(ii) the other half of the balance of amounts due from joint ventures will be converted into the relevant franchisee's investment in the joint venture. As a result, each of the relevant franchisee and us increase investment in the relevant joint venture in equal amount, and maintain equal shares as the relevant franchisee and we did prior to the debt conversion arrangement; and

(iii) the relevant franchisee is obliged to repay us the other half of amounts due from joint ventures, the debt originally payable to us, in consideration for its increase in investment through such conversion.

As a result, the other half of the balance of amounts due from joint ventures was reclassified to amounts due from franchisees and our amounts due from joint ventures decreased to nil as of December 31, 2022. For more detail on investment in joint venture and equity method adopted, see note 2(e) and 14 to the Accountants' Report in Appendix I to this document. See "— Related Party Transactions."

The debt conversion arrangement has no direct impact on (i) the shareholding structure of these joint ventures, (ii) the store type of franchise stores set up by these joint ventures, and (iii) financial performance of the relevant stores.

As of December 31, 2022, our amounts due from joint ventures had been fully settled. We did not have any balance of amounts due from joint ventures as of October 31, 2023.

Loans to Franchisees, Current Portion

Current portion of loans to franchisees mainly represented loans we provided to franchisees in respect of the initial store decoration and opening-related expenses, which are expected to be repaid within one year. Such loans were interest-bearing and unsecured. Our current portion of loans to franchisees decreased from RMB9.9 million as of December 31, 2020 to RMB7.5 million as of December 31, 2021, primarily because of repayment of loans by relevant stores. Our current portion of loans to franchisees decreased from RMB7.5 million as of December 31, 2021 to nil as of December 31, 2022, primarily due to the set-off arrangement in relation to a series of equity acquisition transactions completed in the three months ended December 31, 2022. See "Business — Self-owned Stores and Franchise Stores — Financial Support Provided to Franchisees — Loans to franchisees." We did not have any current portion of loans to franchisees as of October 31, 2023.

Others

Others mainly represented (i) subsidies due from shopping malls for our participation in their sales and promotional events; (ii) prepaid tariff we made as requested by the customs authorities of Indonesia; and (iii) amount due from employees, which we lent to employees primarily for business travel purposes. As of December 31, 2020, 2021, 2022 and October 31, 2023, such amount was RMB6.6 million, RMB31.2 million, RMB48.1 million and RMB38.7 million, respectively.

As of November 30, 2023, RMB32.3 million, or 48.9% of others outstanding as of October 31, 2023, had been subsequently settled.

Cash and Cash Equivalents

Our cash and cash equivalents primarily comprise cash at bank and third-party payment platforms. During the Track Record Period, substantially all of our cash and cash equivalents were denominated in Renminbi. Our cash and cash equivalents were RMB168.3 million, RMB465.7 million, RMB248.1 million, and RMB806.3 million, as of December 31, 2020, 2021 and 2022 and October 31, 2023, respectively. For an analysis of our cash flow, see "— Liquidity and Capital Resources — Cash Flow."

Trade and Other Payables

Our trade and other payables consist of trade payables due to third parties, staff costs payables, and other payables.

The following table sets forth a breakdown of our trade and other payables as of the dates indicated:

	As of December 31,			As of October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	240,707	440,535	379,725	424,092
Other payables and accrued charges	52,779	213,901	167,512	159,942
Payable to an investor	79,016	–	–	–
Staff costs payables	45,757	90,963	88,781	73,980
Amounts due to franchisees	52,917	48,095	49,838	63,240
Amounts due to joint ventures	8,881	1,477	4,838	24,806
VAT payables	5,078	12,320	5,719	4,651
Provisions	1,045	1,045	5,879	6,558
Consideration payable for acquisition of non-controlling interests	–	–	68,300	–
Consideration payable for acquisition of subsidiaries	–	–	3,900	–
Total	**486,180**	**808,336**	**774,492**	**757,269**

Our trade and other payables increased from RMB486.2 million as of December 31, 2020 to RMB808.3 million as of December 31, 2021, primarily driven by our continuous business expansion. Our trade and other payables decreased from RMB808.3 million as of December 31, 2021 to RMB774.5 million as of December 31, 2022, primarily due to (i) the decrease in our trade payables from RMB440.5 million as of December 31, 2021 to RMB379.7 million as of December 31, 2022; and (ii) the decrease in other payables and accrued charges from RMB213.9 million as of December 31, 2021 to RMB167.5 million as of December 31, 2022. Our trade and other payables remained relatively stable at RMB774.5 million as of December 31, 2022 and RMB757.3 million as of October 31, 2023, respectively.

Trade Payables

During the Track Record Period, substantially all of our trade payables were aged within three months. The following table sets forth an aging analysis, based on the invoice date, of our trade payables due to third parties as of the dates indicated:

	As of December 31,			As of October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Aging analysis				
Unbilled or within 3 months	235,325	439,399	362,249	409,526
Three to 6 months	2,789	82	11,972	7,375
6 to 12 months	1,712	375	3,859	2,566
Over 12 months	881	679	1,645	4,625
Total	**240,707**	**440,535**	**379,725**	**424,092**

The following table sets forth the turnover days of our trade payables due to third parties for the years and period indicated:

	Year Ended December 31,			Ten Months Ended October 31,
	2020	2021	2022	2023
Trade payables turnover days(1)	60	57	70	49

Note:

(1) Trade payables turnover days are based on the average balance of trade payables divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the years ended December 31 and for the ten months ended October 31 is 365 days and 300 days, respectively.

The turnover days of trade payables due to third parties were 60 days, 57 days, 70 days and 49 days in 2020, 2021, 2022 and for the ten months ended October 31, 2023. The fluctuation was generally in line with the changes of our inventory turnover days.

As of November 30, 2023, RMB290.8 million, or 67.6% of our trade payables outstanding as of October 31, 2023 had been subsequently settled.

Other Payables and Accrued Charges

Our other payables and accrued charges are primarily associated with store opening expenses and utilities expenses in relation to new retail stores. Our other payables and accrued charges increased from RMB52.8 million as of December 31, 2020 to RMB213.9 million as of December 31, 2021, primarily due to the increased initial store opening expenses in relation to the expansion of our store network. Our other payables and accrued charges decreased from RMB213.9 million as of December 31, 2021 to RMB167.5 million as of December 31, 2022, primarily because we adopted a more prudent store-opening plan in 2022, in the wake of economic uncertainties resulting from COVID-19-related pandemic control measures. Our other payables and accrued charges decreased from RMB167.5 million as of December 31, 2022 to RMB159.9 million as of October 31, 2023, primarily because of our settlement of such balance.

Staff Costs Payables

Our staff costs payable mainly represented the unpaid salaries and welfares payable as well as our provision for social security insurance and housing provident fund during the Track Record Period. Our staff costs payables increased from RMB45.8 million as of December 31, 2020 to RMB91.0 million as of December 31, 2021. Such increase was mainly due to (i) our business expansion which resulted in the increase in number of our personnel; and (ii) increase in our provision for social security insurance and housing provident fund during the Track Record Period. Our staff costs payables decreased slightly from RMB91.0 million as of December 31, 2021 to RMB88.8 million as of December 31, 2022, primarily due to the decreased bonus payment payable to staff. Our staff costs payable decreased from RMB88.8 million as of December 31, 2022 to RMB74.0 million as of October 31, 2023, because we settled such payment with our staff.

Amounts due to Franchisees

Our amounts due to franchisees mainly represented payments we received on behalf of franchisees. As of December 31, 2020, 2021 and 2022 and October 31, 2023, our amounts due to franchisees were RMB52.9 million, RMB48.1 million, RMB49.8 million, and RMB63.2 million, respectively.

Amounts due to Joint Ventures

Our amounts due to joint ventures mainly represented payments we received on behalf of our joint ventures. As of December 31, 2020, 2021 and 2022 and October 31, 2023, our amounts due to joint ventures were RMB8.9 million, RMB1.5 million, RMB4.8 million, and RMB24.8 million, respectively.

VAT Payables

Our VAT payables primarily represent the difference between our output VAT and input VAT as of the balance sheet date. Our VAT payables increased from RMB5.1 million as of December 31, 2020 to RMB12.3 million as of December 31, 2021. The increase was in line with the expansion of our store network. Our VAT payables decreased from RMB12.3 million as of December 31, 2021 to RMB5.7 million as of December 31, 2022, primarily because we adopted a prudent approach in regard to inventory management and reduced the procurement volume of our merchandise from suppliers, in light of COVID-19-related pandemic control measures implemented in China in 2022. Our VAT payables decreased from RMB5.7 million as of December 31, 2022 to RMB4.7 million as of October 31, 2023, primarily due to the increase in our input VAT in March 2023.

Provisions

The provisions under trade and other payables were made for litigations and legal claims that involved us in the ordinary course of business. As of December 31, 2020, 2021 and 2022 and October 31, 2023, we made such provisions in the amount of RMB1.0 million, RMB1.0 million, RMB5.9 million, and RMB6.6 million, respectively. The increase in such provisions in 2022 mainly related to several then pending lawsuits that involved us in connection with our daily operations. The Company believes that the maximum potential exposures of these lawsuits would not have a material adverse impact on our business, results of operations or financial conditions.

Consideration Payable

Our consideration payable was primarily associated with a series of equity acquisitions we completed for five joint ventures and 12 non-wholly owned subsidiaries. For details, see "Business — Store Network Optimization Initiatives." As of December 31, 2022 and October 31, 2023, our consideration payable was RMB72.2 million and nil, respectively.

Contract Liabilities

Our contract liabilities as of October 31, 2023 represented receipts in advance from customers in relation to our premium membership program (黑金會員計劃). We launched such program in April 2023 in order to enhance customers' shopping experience in the KKV retail stores. The premium membership program grants subscribed customers extra coupons and discounts at checkout during the subscription period. As of October 31, 2023, our contract liabilities were RMB43.1 million. See note 22 to the Accountants' Report in Appendix I to this document.

Loans and Borrowings

For details on the current portion of our loans and borrowings and lease liabilities, and their respective fluctuations during the Track Record Period, see "— Indebtedness."

Non-current Assets and Non-Current Liabilities

Property, Plant and Equipment

Our property, plant and equipment consist primarily of (i) leasehold improvements; (ii) office equipment; (iii) motor vehicles; (iv) store equipment, furniture and fittings; and (v) construction in progress. The following table sets forth a breakdown of the net book value of our property, plant and equipment as of the dates indicated:

	As of December 31,			As of October 31, 2023
	2020	2021	2022	
	RMB'000	RMB'000	RMB'000	RMB'000
Leasehold improvements	230,322	338,188	433,676	359,511
Store equipment, furniture and fittings	157,140	268,378	340,767	289,117
Construction in progress	14,632	7,248	11,695	8,408
Office equipment	2,200	2,218	1,358	2,106
Motor vehicles	1,878	3,579	4,066	3,549
Total	**406,172**	**619,611**	**791,562**	**662,691**

Our property, plant and equipment decreased from RMB791.6 million as of December 31, 2022 to RMB662.7 million as of October 31, 2023, primarily due to the depreciation of such assets, particularly, (i) the decrease in leasehold improvements from RMB433.7 million as of December 31, 2022 to RMB359.5 million as of October 31, 2023; and (ii) the decrease in store equipment, furniture and fittings from RMB340.8 million as of December 31, 2022 to RMB289.1 million as of October 31, 2023.

Our property, plant and equipment increased by 27.8% from RMB619.6 million as of December 31, 2021 to RMB791.6 million as of December 31, 2022, primarily as a result of (i) an increase in leasehold improvements from RMB338.2 million as of December 31, 2021 to RMB433.7 million as of December 31, 2022; and (ii) an increase in store equipment, furniture and fittings from RMB268.4 million as of December 31, 2021 to RMB340.8 million as of December 31, 2022. The increase mainly reflected the growth in the number of our self-owned stores from 364 as of December 31, 2021 to 593 as of December 31, 2022.

Our property, plant and equipment increased by 52.5% from RMB406.2 million as of December 31, 2020 to RMB619.6 million as of December 31, 2021, primarily as a result of (i) an increase in leasehold improvement from RMB230.3 million as of December 31, 2020 to RMB338.2 million as of December 31, 2021; and (ii) an increase in store equipment, furniture and fittings to RMB268.4 million as of December 31, 2021 from RMB157.1 million as of December 31, 2020. The increases were predominantly attributable to the increased number of self-owned stores from 132 as of December 31, 2020 to 364 as of December 31, 2021 in relation to our business expansion.

Right-of-use Assets

We recognize right-of-use assets with respect to certain lease agreements in which we are the leasee, such as leases for properties including self-owned stores, offices dormitories and warehouses.

The right-of-use asset recognized is initially measured at cost when a lease is capitalized, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the right-of-use assets also include the estimated costs to dismantle and remove the underlying asset, or to restore the underlying asset, or the site where it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The following table sets forth a breakdown of the net book value of our right-of-use assets as of the dates indicated:

	As of December 31,			As of October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Properties	1,027,733	1,633,491	1,969,161	1,494,777
Warehouse	14,209	29,464	22,904	20,663
Total	**1,041,942**	**1,662,955**	**1,992,065**	**1,515,440**

Our right-of-use assets increased by 59.6% from RMB1.0 billion as of December 31, 2020 to RMB1.7 billion as of December 31, 2021, and further to RMB2.0 billion as of December 31, 2022, primarily because the number of lease agreements we entered into for both our self-owned stores and office premises increased during the Track Record Period. Our right-of-use assets decreased from RMB2.0 billion as of December 31, 2022 to RMB1.5 billion as of October 31, 2023, primarily because of the depreciation related thereto.

Intangible Assets

Our intangible assets consist of software, trademarks and franchise rights. The following table sets forth a breakdown of the net book value of our intangible assets as of the dates indicated:

	As of December 31,			As of October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Software	988	2,548	1,484	802
Trademarks	1,117	744	283	64
Reacquired rights	–	–	67,651	50,927
Total	**2,105**	**3,292**	**69,418**	**51,793**

Our intangible assets increased from RMB2.1 million as of December 31, 2020 to RMB3.3 million as of December 31, 2021. The increase in our intangible assets resulted mainly from the newly purchased software and the newly registered trademarks during the Track Record Period. Our intangible assets increased significantly from RMB3.3 million as of December 31, 2021 to RMB69.4 million as of December 31, 2022, mainly because franchise right was recognized as an intangible asset arising from the reacquisition of rights (namely the rights to use trade name and technologies of our Group) that were previously granted to joint ventures according to relevant franchise agreements. The recognition of franchise right was related to our acquisitions of joint ventures in October 2022. Our intangible assets decreased from RMB69.4 million as of December 31, 2022, to RMB51.8 million as of October 31, 2023, mainly because of the amortization of the franchise rights that were reacquired. See "History, Reorganization and Corporate Structure — Major Acquisitions, Disposals and Mergers — Acquisitions of Joint Ventures and Non-wholly Owned Subsidiaries," "Business — Store Network Optimization Initiatives," and "Business — Network Management and Operations — Store Management — Management of Franchise Stores."

Goodwill

We had goodwill of RMB83.3 million and RMB87.0 million as of December 31, 2022 and October 31, 2023, mainly due to our acquisitions of joint ventures between October 2022 and March 2023. See "History, Reorganization and Corporate Structure — Major Acquisitions, Disposals and Mergers — Acquisitions of Joint Ventures and Non-wholly Owned Subsidiaries," "Business — Store Network Optimization Initiatives," and "Business — Network Management and Operations — Store Management — Management of Franchise Stores."

For impairment testing, goodwill has been allocated to the cash-generating unit (CGU) of our Group as follows.

	As of December 31, 2022	**As of October 31, 2023**
	RMB'000	**RMB'000**
Dongguan Xingkong Trading Co., Ltd. ("**Dongguan Xingkong**")	70,634	70,634
Yunnan Yanyan Trading Co., Ltd. ("**Yunnan Yanyan**")	12,551	12,551
Dongguan Youjia Business Management Co., Ltd ("**Dongguan Youjia**")	–	3,712
Others	151	151
Total	83,336	87,048

The recoverable amounts of the CGUs have been determined on the basis of value-in-use calculation, which are determined by discounting the future cash flows to be generated from the continuing operation of the CGUs. The six-year cash flow projections period used in calculation was based on the financial forecasts approved by the management. Our cash flow projects cover a six-year period primarily after taking into account our past operative experience and our knowledge of our business sector — the acquired businesses will need at least six years to reach a stable market status, so that a terminal value growth rate can be estimated for the major assets' remaining useful life within the CGUs. See note 14 to the Accountants' Report in Appendix I to this document.

Key assumptions used in the estimation of value in use, for Dongguan Xingkong, are set out as follows:

	As of December 31, 2022
	RMB'000
Pre-tax discount rate	17.0%
Terminal value growth rate	3.0%
Revenue growth rate (average of next six years)	9.7%

Key assumptions used in the estimation of value in use, for Yunnan Yanyan, are set out as follows:

	As of December 31, 2022
	RMB'000
Pre-tax discount rate	18.8%
Terminal value growth rate	3.0%
Revenue growth rate (average of next six years)	14.8%

The discount rate used was pre-tax, reflecting specific risks relating to the CGUs. Six years of cash flow were included in the discounted cash flow model. Cash flows beyond the six-year period were extrapolated using the terminal growth rate, which did not exceed the long-term average growth rates of the business operated by the CGUs.

The headroom calculated based on the recoverable amounts deducting the carrying amount of and goodwill allocated for the CGUs were approximated RMB137.1 million for Dongguan Xingkong Trading Co., Ltd. and RMB24.4 million for Yunnan Yanyan Trading Co., Ltd. as of December 31, 2022, respectively.

We performed a sensitivity analysis based on the assumption that pre-tax discount rate and revenue growth rate has been changed. Had the estimated key assumption during the forecast period been changed as below, the headroom would have decreased to the following:

	As of December 31, 2022
	RMB'000
Pre-tax discount rate increase by 5%	
– Dongguan Xingkong	107,261
– Yunnan Yanyan	16,148
Revenue growth rate (average of next six years) decrease by 5%	
– Dongguan Xingkong	69,101
– Yunnan Yanyan	11,347

As of October 31, 2023, we did not perform impairment assessment on Dongguan Youjia Commercial Management Co., Ltd. because we acquired it in early 2023. We will perform annual impairment assessment as of December 31, 2023.

Regarding the assessment of the value in use of the CGUs, we believe that reasonable possible changes in above key assumptions would not lead to the carrying value, including goodwill, of the CGUs to exceed the recoverable amount as of December 31, 2022. As of December 31, 2022 and October 31, 2023, we were not aware of any impairment indicators which might have an impact on the goodwill of each CGU.

Deferred Tax Assets

Our deferred tax assets increased significantly from RMB68.2 million as of December 31, 2020 to RMB111.8 million as of December 31, 2021, and further to RMB200.7 million as of December 31, 2022, primarily due to the increase in the recognition of cumulative tax losses of certain subsidiaries. Our deferred tax assets decreased from RMB200.7 million as of December 31, 2022 to RMB147.4 million as of October 31, 2023, primarily because we had net profit for the ten months ended October 31, 2023.

Investment in Joint Ventures

Our investment in joint ventures represents our long-term equity interest in joint ventures, which operate part of our store network. The following table sets forth a breakdown of our investment in joint ventures as of the dates indicated:

	As of December 31,			As of October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of investment in joint ventures	69,095	169,158	35,224	25,429
Share of accumulated (losses)/profits from operations	(17,665)	(49,969)	3,207	16,308
Total	**51,430**	**119,189**	**38,431**	**41,737**

Our investment in joint ventures was RMB51.4 million, RMB119.2 million, RMB38.4 million, and RMB41.7 million as of December 31, 2020, 2021, 2022, and October 31, 2023, respectively. The increase from December 31, 2020 to December 31, 2021 was mainly driven by our increased equity investment made in certain joint ventures, in order to expand the scale of business operated by those joint ventures. Such increase was partially offset by the increased share of accumulated losses from operations. The decrease from December 31, 2021 to December 31, 2022 and October 31, 2023 was mainly attributable to our acquisitions of joint ventures in line with the store network optimization initiatives. See "History, Reorganization and Corporate Structure — Major Acquisitions, Disposals and Mergers — Acquisitions of Joint Ventures and Non-wholly Owned Subsidiaries" and "Business — Store Network Optimization Initiatives." We had share of accumulated profits from operations as of December 31, 2022 compared to share of accumulated losses from operations as of December 31, 2021, mainly because the relevant joint ventures became our subsidiaries after the acquisition mentioned above. Our share of accumulated profits from operations increased from RMB3.2 million as of December 31, 2022 to RMB16.3 million as of October 31, 2023, mainly due to the improved operating results of our remaining joint ventures in 2023. See note 15 to the Accountants' Report in Appendix I to this document.

We believe that there was no impairment indicator for our investment in joint ventures during the Track Record Period, mainly because (i) an independent valuer issued a valuation report in 2022 to justify the market value of such joint ventures; (ii) the COVID-19 adversely affected the performance of the relevant retail stores operated by the joint ventures; and (iii) the initial share of losses of the joint ventures was within our expectation.

Financial Liabilities Measured at FVTPL

Since the date of incorporation, we have completed several rounds of financing by issuing convertible redeemable preferred shares from series A to series F. Preferred shares issued by us are redeemable at the option of the holder or after the redemption commencement date. These instruments will automatically convert into ordinary shares of our Company upon the [**REDACTED**]. See note 26 to the Accountants' Report in Appendix I to this document and "History, Reorganization and Corporate Structure — Our Corporate History and Major Shareholding Changes of Our Group" for details.

We designated the convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. We applied the discount cash flow method to determine our underlying equity value and adopted option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares.

The following table sets forth the movement of carrying amount of redemption liabilities of ordinary shares and convertible redeemable preferred shares as of the dates indicated:

	As of December 31,			As of October 31,
	2020	**2021**	**2022**	**2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At the beginning of the year/period	1,257,514	3,972,169	11,117,424	10,628,177
Addition	872,141	1,788,452	–	–
Fair value changes	1,842,514	5,356,803	(489,247)	10,013
At the end of the year/period	**3,972,169**	**11,117,424**	**10,628,177**	**10,638,190**

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

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 bank borrowings and capital injection from shareholders. We had cash and cash equivalent of RMB168.3 million, RMB465.7 million, RMB248.1 million and RMB806.3 million, as of December 31, 2020, 2021 and 2022 and October 31, 2023, respectively.

The following table sets forth a summary of our cash flows for the years and periods indicated:

	Year Ended December 31,			Ten Months Ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 (*Unaudited*)	RMB'000
Operating cash flows before changes in working capital	43,875	237,424	301,402	307,257	905,859
Changes in working capital	(357,821)	(824,811)	(2,227)	(83,369)	302,271
Cash (used in)/generated from operations	(313,946)	(587,387)	299,175	223,888	1,208,130
Income tax paid	(124)	(2,314)	(3,901)	(3,901)	(6,391)
Net cash (used in)/generated from operating activities	(314,070)	(589,701)	295,274	219,987	1,201,739
Net cash (used in)/generated from investing activities	(525,590)	(399,236)	(46,720)	52,843	(236,891)
Net cash (used in)/generated from financing activities	778,202	1,289,542	(480,038)	(296,662)	(410,611)
Net increase/(decrease) in cash and cash equivalents	**(61,458)**	**300,605**	**(231,484)**	**(23,832)**	**554,237**
Cash and cash equivalents at the beginning of the year/period	233,291	168,294	465,707	465,707	248,073
Effect of foreign exchange rate change	(3,539)	(3,192)	13,850	21,492	4,015
Cash and cash equivalents at the end of the year/period	**168,294**	**465,707**	**248,073**	**463,367**	**806,325**

Operating Activities

For the ten months ended October 31, 2023, our net cash generated from operating activities was RMB1.2 billion, which was primarily attributable to our profit before taxation of RMB296.5 million, as adjusted by certain non-cash and non-operating items. Adjustments by certain non-cash and non-operating items primarily include depreciation of right-of-use assets of RMB407.0 million, and to a lesser extent, depreciation of property, plant and equipment of RMB163.6 million. The amount was further adjusted by changes in working capital, primarily including (i) an increase in trade and other payables of RMB130.9 million; (ii) an increase in trade and other receivables of RMB38.1 million; (iii) a decrease in inventories of RMB155.7 million primarily because we continued optimizing our inventory management efficiency; and (iv) a decrease in restricted bank deposits of RMB53.8 million.

In 2022, our net cash generated from operating activities was RMB295.3 million, which was primarily the result of operating cash flows before changes in working capital of RMB301.4 million, income tax paid of RMB3.9 million, and the negative changes in working capital of RMB2.2 million. Changes in working capital primarily included (i) a decrease in inventories of RMB174.5 million primarily because we continued optimizing our inventory management efficiency; (ii) an increase in trade and other receivables of RMB255.2 million; (iii) an increase in restricted bank deposits of RMB60.9 million; and (iv) an increase in trade and other payables of RMB139.4 million.

In 2021, our net cash used in operating activities was RMB589.7 million, which was primarily attributable to our loss before taxation of RMB5.7 billion, as adjusted by certain non-cash and non-operating items, and aggregated income tax paid of RMB2.3 million. Adjustments by certain non-cash and non-operating items primarily included fair value changes of financial liabilities measured at FVTPL of a loss of RMB5.4 billion, and depreciation of right-of-use assets of RMB336.3 million. The amount was further adjusted by changes in working capital of RMB824.8 million, primarily including (i) an increase in trade and other receivables of RMB503.1 million (ii) an increase in inventories of RMB365.9 million; and (iii) an increase in restricted bank deposits of RMB147.5 million. The abovementioned increases in (i), (ii) and (iii) were in line with our overall business growth.

In 2020, our net cash used in operating activities was RMB314.1 million, which was primarily attributable to our loss before taxation of RMB2.0 billion, as adjusted by certain non-cash and non-operating items, and aggregated income tax paid of RMB0.1 million. Adjustments by certain non-cash and non-operating items primarily included fair value changes of financial liabilities measured at FVTPL of a loss of RMB1.8 billion, and depreciation of right-of-use assets of RMB166.0 million. The amount was further adjusted by changes in working capital, primarily comprising (i) an increase in inventories of RMB264.4 million; and (ii) an increase in trade and other receivables of RMB158.2 million. Both increases mentioned in (i) and (ii) related to our rapid business expansion.

Investing Activities

For the ten months ended October 31, 2023, our net cash used in investing activities was RMB236.9 million, which was primarily attributable to (i) payment for purchase of property, plant and equipment of RMB132.8 million; and (ii) acquisition of non-controlling interests of RMB105.6 million.

In 2022, our net cash used in investing activities was RMB46.7 million, which was primarily attributable to (i) payment for other investments of RMB350.0 million; (ii) acquisition of subsidiary, net of cash acquired of RMB143.8 million and (iii) payment for purchase of property, plant and equipment of RMB179.8 million; partially offset by proceeds from disposal of other investments of RMB643.0 million, as a portion of wealth management products in our investment portfolio matured.

In 2021, our net cash used in investing activities was RMB399.2 million, which was primarily attributable to payment for property, plant and equipment of RMB307.2 million as a result of (i) our expanded store network in order to sustain our business growth; and (ii) payment for other investments of RMB303.0 million; partially offset by (i) interests from loans to franchisees of RMB39.7 million; and (ii) repayment from loans to franchisees of RMB170.8 million.

In 2020, our net cash used in investing activities was RMB525.6 million, which was primarily attributable to (i) payment for property, plant and equipment of RMB316.5 million in connection with our expanded store network in order to sustain our business growth; and (ii) payment for loans to franchisees of RMB270.0 million; partially offset by (i) repayment from loans to franchisees of RMB32.8 million; and (ii) interests from loans to franchisees of RMB30.0 million.

For details about our investing activities with franchisees, see "Business — Self-owned Stores and Franchise Stores — Financial Support Provided to Franchisees — Loans to franchisees."

Financing Activities

For the ten months ended October 31, 2023, our net cash used in financing activities was RMB410.6 million, which was primarily attributable to (i) capital element of lease rentals paid of RMB311.1 million in connection with the lease agreements for our retail stores; and (ii) repayment of loans and borrowings of RMB156.3 million; partially offset by proceeds from loans and borrowings of RMB135.6 million.

In 2022, our net cash used in financing activities was RMB480.0 million, which was primarily attributable to (i) capital element of lease rentals paid of RMB346.2 million in connection with the lease agreements for our retail stores and (ii) repayment of loans and borrowings of RMB229.3 million; partially offset by proceeds from loans and borrowings of RMB198.9 million.

In 2021, our net cash generated from financing activities was RMB1.3 billion, which was primarily attributable to the proceeds from issuance of convertible redeemable preferred shares of RMB1.8 billion in connection with our series F round of financing; partially offset by (i) repayment of loans and borrowings of RMB332.1 million; and (ii) capital element of lease rentals paid of RMB279.5 million, mainly in relation to leases for our retail stores.

In 2020, our net cash generated from financing activities was RMB778.2 million, which was primarily attributable to (i) the proceeds from issuance of ordinary shares with redemption option/convertible redeemable preferred shares of RMB872.1 million in connection with our series D and E rounds of financing; and (ii) proceeds from loans and borrowings of RMB309.8 million from one of our shareholders and several commercial banks; partially offset by (i) repayment of loans and borrowings of RMB232.1 million; and (ii) capital element of lease rentals paid of RMB121.7 million, mainly in relation to leases for our retail stores.

Working Capital Confirmation

Our Directors believe that, after taking into account the financial resources available to us, including internally generated funds, our cash and cash equivalents, our available banking facilities and the estimated [**REDACTED**] of the [**REDACTED**], we have sufficient working capital for our present requirements for at least the next 12 months from the date of this document.

INDEBTEDNESS

The following table sets forth our indebtedness as of the dates indicated:

	As of December 31,			As of October 31,	As of November 30,
	2020	2021	2022	2023	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 *(Unaudited)*
Loans and borrowings	309,790	186,667	156,323	135,615	135,615
Lease liabilities	1,054,410	1,712,119	2,174,807	1,679,619	1,725,280
Total	**1,364,200**	**1,898,786**	**2,331,130**	**1,815,234**	**1,860,895**

During the Track Record Period and up to the Latest Practicable Date, there was no default in payment of bank and other borrowings or breach of material covenants in respect of our debts.

Loans and Borrowings

Our loans and borrowings primarily consisted of bank loans and borrowings from our shareholders, to sustain our business expansion. The table below sets forth a breakdown of our loans and borrowings as of the dates indicated:

	As of December 31,			As of October 31,	As of November 30,
	2020	2021	2022	2023	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Bank loans	61,843	186,667	156,323	135,615	135,615
Other borrowings	247,947	–	–	–	–
Total	**309,790**	**186,667**	**156,323**	**135,615**	**135,615**

As of December 31, 2020, 2021 and 2022 and October 31, 2023, our loans and borrowings were RMB309.8 million, RMB186.7 million, RMB156.3 million and RMB135.6 million, respectively, of which RMB247.9 million, nil, nil and nil, respectively, were loans borrowed from our shareholders to support our business growth and increased purchases of inventories. As of October 31, 2021, we had settled all loans borrowed from shareholders in full.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any difficulty in obtaining bank loans and other borrowings.

As of November 30, 2023, being the indebtedness statement date, we had unutilized banking facilities of RMB370.8 million.

The following table sets forth the maturity profiles of loans and borrowings as of the dates indicated:

	As of December 31,			As of October 31,	As of November 30,
	2020	2021	2022	2023	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Loans and borrowings payable:					
– Within one year	305,346	186,667	156,323	135,615	135,615
– After one year but within two years	4,444	–	–	–	–
Total	**309,790**	**186,667**	**156,323**	**135,615**	**135,615**

Lease Liabilities

The table sets out below details of our lease liabilities as of the dates indicated:

	As of December 31,			As of October 31, 2023	As of November 30, 2023
	2020	2021	2022		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Current	165,325	312,590	470,195	425,290	429,606
Non-current	889,085	1,399,529	1,704,612	1,254,329	1,295,674
Total	**1,054,410**	**1,712,119**	**2,174,807**	**1,679,619**	**1,725,280**

As of December 31, 2020, 2021 and 2022, and October 31, 2023, our lease liabilities were approximately RMB1.1 billion, RMB1.7 billion, RMB2.2 billion, and RMB1.7 billion, respectively, in connection with the lease contracts we entered into for our self-owned stores. For details on the accounting of our lease liabilities, see "— Critical Accounting Policies, Judgments and Estimates — Leased Assets." For further information regarding our lease liabilities, see note 25 to the Accountants' Report in Appendix I to this document.

Statement of Indebtedness

Our Directors confirm that they are not aware of any material defaults in payment of our trade and other payables and interest-bearing borrowings during the Track Record Period and up to the Latest Practicable Date. As of November 30, 2023, being the latest practicable date for the purpose of this statement of indebtedness, 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, up to the Latest Practicable Date, there had been no material change in our indebtedness since November 30, 2023.

RELATED PARTY TRANSACTIONS

The table below sets forth the amounts due to and from our related parties as of the dates indicated:

	As of December 31,			As of October 31, 2023
	2020	2021	2022	
	RMB'000	RMB'000	RMB'000	RMB'000
Loans payable to a related party:				
Shanghai Black Algae Investment Management Center (Limited Partnership) (上海黑藻投資管理中心(有限合夥))	247,947	–	–	–
Amounts due to related parties:				
Joint ventures[1]	8,881	1,477	4,838	24,806
Total	**256,828**	**1,477**	**4,838**	**24,806**

Note:

(1) For details about joint ventures, see note 30 to the Accountants' Report in Appendix I to this document.

	As of December 31,			As of October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties:				
Directors	16,046	–	–	–
Joint ventures[(1)]	47,172	231,269	–	–
Total	**63,218**	**231,269**	**–**	**–**

Note:

(1) For details about joint ventures, see note 30 to the Accountants' Report in Appendix I to this document.

As of December 31, 2020, 2021 and 2022 and October 31, 2023, our loans payables to Shanghai Black Algae Investment Management Center (上海黑藻投資管理中心), one of our then non-controlling shareholders, were RMB247.9 million, nil, nil and nil, respectively. The loan agreements entered into by Shanghai Black Algae and us during the Track Record Period typically contained the following key terms:

- *Usage*. The proceeds from the loans can only be used for our business operation.

- *Term*. The term of the loans is generally less than one year, commencing from the end of the year, with both principal and interest repayable on the maturity date.

These amounts were non-trade in nature and unsecured. We sought short-term facility loans by the year-end from the then shareholder to prepare for the payment of merchandise to be featured in our retail stores in the coming year, given that our store number keeps increasing through network expansion. As of December 31, 2021, we had settled all loans borrowed from shareholders in full.

Our amounts due to related parties primarily included payments we received on behalf of our joint ventures in normal course of business. As of December 31, 2020, 2021 and 2022 and October 31, 2023, such amount was RMB8.9 million, RMB1.5 million, RMB4.8 million, and RMB24.8 million, respectively. The amount was primarily non-trade in nature, and unsecured, interest-free and repayable on a regular basis. Our amounts due to related parties fluctuated during the Track Record Period.

Our amounts due from related parties primarily included payments we made on behalf of our joint ventures with respect to their day-to-day operating expenses and initial store opening expenses, to a lesser extent. As of December 31, 2020, 2021 and 2022 and October 31, 2023, such amount was RMB63.2 million, RMB231.3 million, nil, and nil, respectively. The amount was primarily non-trade in nature, and unsecured, interest-free and repayable on a regular basis. For more details on debt conversion arrangement in line with our commitment to enhancing our business relationship with franchisees and gaining opportunities for long-term investment return, please see "— Discussion of Certain Statements of Financial Position Items — Current Assets and Current Liabilities — Trade and Other Receivables — Amounts Due from Joint Ventures" above in this section.

Our Directors confirm that all related-party transactions during the Track Record Period were entered into on an arm's length basis, and they did not distort our results of operations or make our historical results unreflective of our future performance. Our amounts due from and to related parties as of December 31, 2020, 2021 and 2022 and October 31, 2023, were all non-trade in nature. All the non-trade balances with related parties will be settled prior to the [**REDACTED**]. For details on our related party transactions, see note 30 to the Accountants' Report in Appendix I to this document.

CAPITAL EXPENDITURES

Our capital expenditure are incurred primarily in connection with payment for purchase of property, plant and equipment and leasehold improvements. In 2020, 2021 and 2022 and for the ten months ended October 31, 2023, our total capital expenditures were RMB316.5 million, RMB307.2 million, RMB179.8 million, and RMB132.8 million, respectively, while average capital expenditure per self-owned store was RMB2.0 million, RMB2.0 million, RMB1.7 million, and RMB1.0 million in the same periods, respectively.

As we continue to expand our store network, we expect our capital expenditures to increase in the future. In 2023, our estimated total capital expenditure is expected to be approximately RMB272.4 million, primarily relating to new store openings and refurbishment of existing stores. We intend to fund our future capital expenditures with our existing cash balance, [**REDACTED**] from this [**REDACTED**] and future cash generated from operations. Our actual capital expenditures may differ from the amounts set forth above due to various factors, including our future cash flows, results of operations and financial condition.

CONTRACTUAL OBLIGATIONS

Capital Commitments

Our capital commitments outstanding as of December 31, 2020, 2021 and 2022 and October 31, 2023 not provided for in the financial statements were as follows:

	As of December 31,			As of October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for	18,254	16,850	13,339	7,784
Capital investment commitment	5,000	–	–	–
Total	**23,254**	**16,850**	**13,339**	**7,784**

Our capital commitments during the Track Record Period were primarily attributable to our establishment of new self-owned stores.

KEY FINANCIAL RATIOS

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

	Year Ended/As of December 31,			Ten Months Ended/As of October 31,
	2020	2021	2022	2023
Current ratio(1)	1.27	2.10	1.35	1.63
Revenue growth	254.9%	114.1%	0.8%	55.5%
Gross profit margin	30.4%	37.6%	40.1%	47.2%
Operating (loss)/profit margin(2)	(8.7%)	(6.7%)	(9.1%)	7.9%
Adjusted EBITDA margin (a non-HKFRS measure)(3)	2.3%	5.1%	7.0%	20.4%

Notes:

(1) Current ratio is calculated by dividing total current assets by total current liabilities at the end of the period.

(2) Operating loss/profit margin is calculated by dividing loss/profit from operations by revenue, and multiplied by 100.0%.

(3) Adjusted EBITDA margin (a non-HKFRS measure) is calculated by dividing adjusted EBITDA for the year/period (a non-HKFRS measure) by revenue, and multiplied by 100.0%. For reconciliation of adjusted EBITDA (a non-HKFRS measure) from loss/profit for the year/period, see "— Non-HKFRS Measures."

See "— Management's Discussion and Analysis of Results of Operations" for detailed discussion of the factors affecting our results of operations during the Track Record Period.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as Shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. 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, hedging or product development services with us.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of our business, we are exposed to various market risks, including credit risk, liquidity risk, interest rate risk and currency risk. Our risk management strategy aims to minimize the potential adverse effects of such risks on our financial performances. We have control policies in place and the exposure to these risks are monitored on an on-going basis by the Board. For details, see note 27 to the Accountants' Report in Appendix I to this document.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to us. Our exposure to credit risk is primarily attributable to trade and other receivables. Our exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks, financial institutions, Alipay and WeChat Pay with high credit rating and no past due history, for which we consider to have low credit risk.

Our exposure to credit risk arising from trade receivables is influenced mainly by the individual characteristics of each customer and country in which we have operation, rather than the industry in which the customers operate. We are subject to credit concentration risk. As of October 31, 2023, 75.7% of the total trade receivables were due from one customer in Indonesia. Except for above, we have no significant concentration of credit risk in industries or countries in which the customers operate. We measure loss allowances for trade receivables at an amount equivalent to lifetime expected credit losses ("**ECLs**"), which is calculated using a provision matrix. As we have not experienced any significant credit losses in the past, our management considers the ECL rate for trade receivables to be insignificant and close to zero.

Our other receivables mainly include rental deposits and amounts due from franchisees. For rental deposits, our directors have taken into account the historical default experience and forward-looking information, as appropriate. Our directors have assessed that rental deposit have not had a significant increase in credit risk since initial recognition and risk of default is insignificant, and therefore, the ECL rate is considered to be insignificant and close to zero.

For the amounts due from franchisees, we consider the probability of default upon initial recognition and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, we compare the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. We would also consider reasonable and supportive forwarding-looking information available to us.

Over the term of the amounts due from franchisees, we account for our credit risk by appropriately providing for ECL on a timely basis. In calculating the ECL rates, we consider historical loss rates and adjusts for forward-looking macroeconomic data.

Liquidity Risk

We recorded net current assets of RMB254.6 million, RMB1,450.6 million, RMB489.7 million, and RMB890.7 million, respectively, as of December 31, 2020, 2021 and 2022 and October 31, 2023. We regularly monitor our liquidity requirements to ensure that we maintain sufficient reserves of cash to meet our liquidity requirements in the short and longer term. Historically, we have relied principally on loans and other borrowings, as well as equity financing, to fund our operations and business development. For a detailed analysis on the remaining contractual maturities of our financial liabilities, see note 27(b) to the Accountants' Report in Appendix I to this document.

We have carried out a review of our cash flow forecast for the 18 months period following the date of issuance of the consolidated financial statements. Based on such forecast, our management believes that adequate sources of liquidity exist to fund our working capital and future capital expenditures requirements, and other liabilities and commitments as they become due. In preparing the cash flow forecast, our management has considered historical cash requirements, working capital and capital expenditures plans, estimated cash flows provided by operations, existing cash on hand, as well as other key factors, including utilization of credit facilities granted by financial institutions. Our management believes the assumptions used in the cash forecast are reasonable.

Currency Risk

As our principal activities are carried out in the PRC, our transactions are mainly denominated in Renminbi, which is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorized to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

DIVIDEND

As we are a holding company incorporated under the laws of the Cayman Islands, the payment and amount of any future dividends will depend on the availability of dividends received from our subsidiaries. During the Track Record Period, we did not declare or distribute any dividend to our Shareholders. We do not have any dividend policy at present and have no present plan to pay any dividends to our Shareholders in the foreseeable future. However, we may distribute dividends in the future by way of cash or by other means that we consider appropriate. Any dividends we pay will be determined at the absolute discretion of our Board, taking into account factors including our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that our Board deems to be appropriate. Our Shareholders may approve, in a general meeting, any declaration of dividends, which must not exceed the amount recommended by our Board.

As advised by our Cayman Islands legal advisor, under Cayman Islands law, a position of accumulated losses does not necessarily restrict us from declaring and paying dividends to our Shareholders out of profits and reserves of our Company lawfully available for distribution, including share premium, provided this would not result in our Company being unable to pay its debts as they fall due in the ordinary course of business.

PROFIT ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2023

We have prepared the following profit estimate for the year ended December 31, 2023:

Estimated consolidated profit attributable to equity shareholders of the Company for the year ended December 31, 2023[1]	No less than RMB[**REDACTED**]

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(1) The basis on which the above estimate has been prepared is set out in Appendix IA to this document. Our Directors have prepared the estimated consolidated profit attributable to equity shareholders of the Company for the year ended December 31, 2023 based on (i) the audited consolidated results of our Group for the ten months ended October 30, 2023 and (ii) the unaudited consolidated results based on the management accounts of our Group for the remaining two months ended December 31, 2023. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by our Group as set out in Note 2 to the Accountant's Report in Appendix I to this document.

[REDACTED]

Our [**REDACTED**] mainly include [**REDACTED**] and professional fees paid to legal, accounting and other advisors for their services rendered in relation to the [**REDACTED**] and the [**REDACTED**]. The estimated total [**REDACTED**] (based on the mid-point of the [**REDACTED**] and assuming that the [**REDACTED**] is not exercised) for the [**REDACTED**] are approximately RMB[**REDACTED**] (including (i) [**REDACTED**] (including but not limited to [**REDACTED**] and fees) of approximately HK$[**REDACTED**], and (ii) [**REDACTED**] of approximately HK$[**REDACTED**], which consist of fees and expenses of legal advisors and the Reporting Accountants of approximately HK$[**REDACTED**], and other fees and expenses of approximately HK$[**REDACTED**]), accounting for approximately [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**] (based on the mid-point of the [**REDACTED**] and assuming that the [**REDACTED**] is not exercised), of which (i) approximately RMB[**REDACTED**] has been charged to our consolidated statements of profit or loss and other comprehensive income during the Track Record Period, and (ii) approximately RMB[**REDACTED**] is expected to be charged to our consolidated statements of profit or loss and other comprehensive income subsequent to the Track Record Period and the remaining amount of RMB[**REDACTED**] is expected to be recognized directly as a deduction from equity upon the [**REDACTED**].

UNAUDITED [REDACTED] ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited [**REDACTED**] statement of our adjusted consolidated net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is to illustrate the effect of the [**REDACTED**] on our consolidated net tangible liabilities attributable to the shareholders as of October 31, 2023 as if the [**REDACTED**] took place on that date.

The unaudited [**REDACTED**] statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets had the [**REDACTED**] been completed as of October 31, 2023 or any future dates:

	Consolidated net tangible liabilities attributable to equity shareholders of our Company as of October 31, 2023(1)	Estimated [REDACTED] from the [REDACTED](2)	Estimated impact upon the termination of the financial liabilities measured at fair value through profit or loss(3)	Unaudited [REDACTED] adjusted net tangible assets attributable to equity shareholders of our Company	Unaudited [REDACTED] adjusted net tangible assets attributable to equity shareholders of our Company per Share(4)(5)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	(8,360,842)	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	(8,360,842)	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

Notes:

(1) The consolidated net tangible liabilities attributable to equity shareholders of our Company as of October 31, 2023 is based on the consolidated net liabilities attributable to equity shareholders of our Company of RMB8,222,001,000, after deducting intangible assets of RMB51,793,000 and goodwill of RMB87,048,000 as shown in the Accountants' Report as set out in Appendix I to this document.

(2) The estimated [**REDACTED**] from the [**REDACTED**] are based on [**REDACTED**] expected to be issued under the [**REDACTED**] and the indicative [**REDACTED**] of HK$[**REDACTED**] per Share and HK$[**REDACTED**] per Share, being the low end and high end of the indicative [**REDACTED**] respectively, after deduction of the estimated [**REDACTED**] and other estimated expenses related to the [**REDACTED**] paid or payable by our Group (excluding the [**REDACTED**] charged to profit or loss during the Relevant Periods) and does not take into account of any shares which may be issued upon the exercise of the [**REDACTED**].

The estimated [**REDACTED**] from the [**REDACTED**] is converted into Renminbi at an exchange rate of HK$1 to RMB0.9091 prevailing on January 25, 2024. No representation is made that Hong Kong dollar amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rate or at all.

(3) The carrying amount of convertible redeemable preferred shares was RMB10,638,190,000 as of October 31, 2023 (as set out in note 27 of Appendix I). Upon the [**REDACTED**] and completion of the [**REDACTED**], all these convertible redeemable preferred shares will be converted into ordinary shares, and the preferential rights of the above-mentioned ordinary shares will be terminated, and these financial liabilities will be re-designated from liabilities to equity.

(4) The unaudited [**REDACTED**] adjusted net tangible assets attributable to equity shareholders of our Company per Share is arrived at after adjustments as described in notes (2) and (3) and on the basis that a total of [**REDACTED**] Shares were in issue assuming that the [**REDACTED**] completed on October 31, 2023 without taking into account of any shares which may be issued upon exercise of the [**REDACTED**].

(5) The unaudited [**REDACTED**] adjusted net tangible assets attributable to equity shareholders of our Company per Share is converted into Hong Kong dollars at an exchange rate of RMB1 to HK$1.1000 published by PBOC prevailing on January 25, 2024. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollar, or vice versa, at that rate or at any other rate or at all.

(6) No adjustments have been made to the unaudited [**REDACTED**] adjusted net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to October 31, 2023.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure required under Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules upon the [**REDACTED**] of the Shares on the Stock Exchange.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our Directors confirm that there has been no material adverse change in our financial or trading position since October 31, 2023 and no event had occurred since October 31, 2023 that would materially and adversely affect the information in the Accountants' Report in Appendix I to this document.

FUTURE PLANS

See "Business — Our Development Strategies" for a detailed description of our future plans.

USE OF [REDACTED]

The table below sets forth the estimated [**REDACTED**] of the [**REDACTED**] which we will receive after deduction of [**REDACTED**] and [**REDACTED**] and estimated expenses payable by us in connection with the [**REDACTED**] (assuming the [**REDACTED**] is not exercised):

Assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the low end of the [**REDACTED**] range stated in this document)	HK$[**REDACTED**]
Assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the [**REDACTED**] range stated in this document)	HK$[**REDACTED**]
Assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the high end of the [**REDACTED**] range stated in this document)	HK$[**REDACTED**]

We intend to use the [**REDACTED**] as follows (based on the mid-point of the [**REDACTED**] range stated in this document):

- approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used over the next two years to continue developing our store network and further deepening our market penetration. In the past few years, our industry had witnessed a significant growth. According to the Frost & Sullivan Report, the market size of the offline-driven non-grocery retail in China by GMV has experienced a fast expansion in recent years, increasing from RMB205.5 billion to RMB268.5 billion from 2018 to 2022. It is estimated that the market size by GMV will reach RMB655.5 billion in 2027, representing an estimated CAGR of 19.5% from 2022 to 2027, according to the same source. In view of the huge market potential, we will continue to expand the scale of our business and seize market opportunities in a timely manner, in order to leverage on our established brand awareness to drive long-term growth. We will both increase market presence in existing markets and penetrate into new regions. We will focus on tier-two and lower tier cities which have sufficient whitespace for growth, according to the Frost & Sullivan Report. For details on our store opening plans, please see "Business — Network Management and Operation — Expansion Plan for Sales Channels."

In particular, we intend to allocate:

(i) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used over the next two years to fund the initial capital expenditure and other associated costs in connection with the planned store network expansion. In 2020, 2021 and 2022, our average capital expenditure per self-owned store was RMB2.0 million, RMB2.0 million and RMB1.7 million, respectively. Based on such historical amounts, estimated store size, decoration and location for planned store opening under the four different brands, the table below sets forth the estimated average capital expenditure per store for store openings in 2024 and 2025:

	Estimated average capital expenditure per store
	(RMB in million)
KKV	[**REDACTED**]
Purchase of property, plant and equipment	[**REDACTED**]
Leasehold improvements	[**REDACTED**]
THE COLORIST	[**REDACTED**]
Purchase of property, plant and equipment	[**REDACTED**]
Leasehold improvements	[**REDACTED**]
X11	[**REDACTED**]
Purchase of property, plant and equipment	[**REDACTED**]
Leasehold improvements	[**REDACTED**]
KK Guan	[**REDACTED**]
Purchase of property, plant and equipment	[**REDACTED**]
Leasehold improvements	[**REDACTED**]

To the extent that the allocated [**REDACTED**] from the [**REDACTED**] are not sufficient to fund the initial capital expenditure regarding the estimated store openings in 2025, we will make up the shortfall with our internally generated funds, our cash and cash equivalents, as well as our available banking facilities.

(ii) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used to pay the rents for the new stores to be opened over the next two years.

(iii) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used in connection with the hiring, training and retention of in-store staff for the new stores to be opened over the next two years.

- approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used in the next two years to further invest in technology initiatives to enhance the digitalization of our business, including:

(i) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used in the next two years to

(a) deploy a variety of intelligent devices and software in our day-to-day operation, such as smart payment machines, POS terminals, and data analytics software to further realize automated, streamlined and digital operation both at headquarter level and store level;

(b) upgrade KPOS, KVCM and other systems over the next two years to improve system stability and enable larger-scale data usage in our existing stores and the new stores;

(c) research and develop our quality management system and launch this system in 2024 to enable systematic quality inspection on merchandise stored in our warehouses, automatic check on defective batches of merchandise and after-sales feedback collection from stores; and

(d) optimize KPOS, KVCM and other systems in 2025 through advanced technologies of HTML5 and Canvas to efficiently visualize and manage site selection evaluation, decoration design, shelf display, order processing, as well as inventory status.

(ii) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used in the next two years to pay the salaries and bonuses of our existing and newly recruited IT talents of various seniority levels who are specialized in software development and data analytics technologies to strengthen the digitalization and intelligence of our store network management.

- approximately [**REDACTED**]%, or HK$[**REDACTED**] million, will be used in the next two years for expansion and optimization of our logistics and supply chains, with a goal to sustain our business growth, including:

(i) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used in the next two years to improve automation and intelligence of our warehousing equipment and system and optimize our logistics infrastructure to improve cost-efficiency for logistics.

(a) We will invest in introducing more information operation and management equipment in our existing and new warehouses in the next two years. Such equipment includes intelligent robot forklifts, conveyor line workstations and intelligent management platforms, which can jointly realize 24-hour continuous production and improve warehouse operation efficiency;

(b) We will invest in upgrading our TERP and WMS systems over the next two years to track in real-time each purchase made in the existing stores and the new stores and plan the sequence of each delivery to reduce latency time and avoid out-of-region fulfillment when certain merchandise is out of stock;

(c) We will invest in introducing the warehouse and distribution network simulation planning system by the end of 2024. This system can simulate the respective geographic locations, distribution paths, as well as operation time of the existing suppliers, warehouses, NDCs and our stores on a real time basis, which can quickly pick out the optimal distribution routes, improve inventory turnover rate and reduce operating expenses; and

(d) We will expand the size of our existing seven warehouses and establish three new warehouses in China in 2024 and 2025, including funding the investment costs in connection with construction and lease expenses expected to be incurred. We believe such an enhanced warehouse network will further shorten cost of time related to distribution and transportation of merchandise, and improve inventory turnover efficiency.

(ii) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used in the next two years to invest in technology with a focus on improving digital and supply chain.

(a) We will continue to invest in the R&D of the replenishment system for the entire supply chain, including sales forecasting, automatic replenishment and dispatching merchandise to our stores, as well as optimal cost simulation. We have started developing certain functions of this system since 2022 and expect to complete the R&D of this system by the end of 2025. Driven by merchandise sales trend, this system will enable us to manage SKUs selection, distribution and restoration in a more efficient manner, in order to realize a closed loop from upstream supply chain to retail stores;

(b) We will invest in the R&D of the monitoring tower system which enables the real-time monitoring and visualization of services in the entire supply chain, including placing orders, appointing suppliers, quality check, entering into warehouses, storage, dispatching merchandise, order tracking and stores' receipt of merchandise. We expect to complete the R&D of this system in 2025; and

(c) We will upgrade the Supplier Settlement System that enables the suppliers to review and reconcile their bills and orders, settle payments, and carry out other supply chain financing functions. We will invest in improving the digital visibility and collaboration efficiency of this system.

- the remaining approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used for working capital and general corporate purposes.

The allocation of the [**REDACTED**] above will be adjusted on a pro rata basis in the event that the [**REDACTED**] is fixed at a higher or lower level compared to the mid-point of the estimated [**REDACTED**] range.

To the extent our [**REDACTED**] are either more or less than expected, we will increase or decrease the allocation of the [**REDACTED**] to the purposes above on a pro rata basis.

To the extent that the [**REDACTED**] from the [**REDACTED**] are not immediately required for the purposes above and to the extent permitted by the relevant law and regulations, we will only place the [**REDACTED**] from the [**REDACTED**] in short-term interest-bearing accounts maintained in licensed banks and/or other authorized financial institutions as defined under the Securities and Futures Ordinance or the relevant PRC laws and regulations. We will make an appropriate announcement if there is any change to the proposed use of [**REDACTED**] above or if any amount of the [**REDACTED**] will be used for general corporate purpose.

If the [**REDACTED**] is fully exercised, our Company will receive additional [**REDACTED**] of approximately HK$[**REDACTED**] for [**REDACTED**] Shares to be allotted and issued upon the full exercise of the [**REDACTED**] based on the [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**], being the mid-point of the [**REDACTED**] range, and after deducting the [**REDACTED**] and [**REDACTED**] payable by our Company. The additional amount raised will be applied to the abovementioned areas of use of [**REDACTED**] on pro rata basis.

[REDACTED]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

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The following is the text of a report set out on pages I-1 to [I-70] received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF KK GROUP COMPANY HOLDINGS LIMITED AND MORGAN STANLEY ASIA LIMITED

Introduction

We report on the historical financial information of KK Group Company Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to [I-70], which comprises the consolidated statements of financial position of the Group and the statements of financial position of the Company as at December 31, 2020, 2021, 2022 and October 31, 2023, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended December 31, 2020, 2021, 2022 and the ten months ended October 31, 2023 (the "Relevant Periods"), and a summary of material accounting policy information and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to [I-70] 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 [**REDACTED**] of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for 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 preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' 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 accountants consider internal control relevant to the entity's preparation of Historical

Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 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 purpose of the accountants' report, a true and fair view of the Company's and the Group's financial position as at December 31, 2020, 2021, 2022 and October 31, 2023 of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the ten months ended October 31, 2022 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 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 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 26(d) to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its incorporation.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

[Date]

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in RMB and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in Renminbi ("RMB"))

	Note	Year ended December 31,			Ten months ended October 31,	
		2020	**2021**	**2022**	**2022**	**2023**
		RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
					(Unaudited)	
Revenue	4	1,645,904	3,523,854	3,550,951	3,066,526	4,769,277
Cost of sales		(1,146,191)	(2,200,332)	(2,125,422)	(1,847,956)	(2,520,227)
Gross profit		499,713	1,323,522	1,425,529	1,218,570	2,249,050
Other income	5	34,888	61,194	62,260	57,769	37,393
Selling and distribution expenses		(395,250)	(1,097,483)	(1,313,170)	(1,049,259)	(1,437,984)
Administrative and other operating expenses		(281,894)	(524,739)	(497,454)	(386,705)	(472,138)
(Loss)/profit from operations		(142,543)	(237,506)	(322,835)	(159,625)	376,321
Finance costs	6(a)	(49,152)	(91,511)	(103,474)	(84,009)	(80,923)
Share of (losses)/profit from joint ventures	15	(16,170)	(32,304)	(81,689)	(71,793)	11,085
Fair value changes of financial liabilities measured at fair value through profit or loss	27	(1,842,514)	(5,356,803)	489,247	456,043	(10,013)
(Loss)/profit before taxation	6	(2,050,379)	(5,718,124)	(18,751)	140,616	296,470
Income tax credit/(expenses)	7	33,172	36,773	80,615	48,022	(87,044)
(Loss)/profit for the year/period		(2,017,207)	(5,681,351)	61,864	188,638	209,426
Attributable to:						
Equity shareholders of the Company		(2,016,324)	(5,625,587)	90,595	244,944	201,096
Non-controlling interests		(883)	(55,764)	(28,731)	(56,306)	8,330
(Loss)/profit for the year/period		(2,017,207)	(5,681,351)	61,864	188,638	209,426
Other comprehensive income for the year/period						
Item that may be reclassified subsequently to profit or loss						
– Exchange differences on translation of financial statements of entities outside Mainland China		(18,647)	31,915	(2,770)	3,126	6,157
Total comprehensive income for the year/period		(2,035,854)	(5,649,436)	59,094	191,764	215,583
Attributable to:						
Equity shareholders of the Company		(2,034,983)	(5,593,681)	87,766	248,011	207,253
Non-controlling interests		(871)	(55,755)	(28,672)	(56,247)	8,330
Total comprehensive income for the year/period		(2,035,854)	(5,649,436)	59,094	191,764	215,583
(Loss)/profit per share						
Basic and diluted	10	N/A	N/A	N/A	N/A	N/A

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in RMB)

	Note	As at December 31, 2020 RMB'000	As at December 31, 2021 RMB'000	As at December 31, 2022 RMB'000	As at October 31, 2023 RMB'000
Non-current assets					
Property, plant and equipment	11	406,172	619,611	791,562	662,691
Right-of-use assets	12	1,041,942	1,662,955	1,992,065	1,515,440
Intangible assets	13	2,105	3,292	69,418	51,793
Goodwill	14	–	–	83,336	87,048
Deferred tax assets	23(b)	68,226	111,811	200,694	147,432
Investment in joint ventures	15	51,430	119,189	38,431	41,737
Trade and other receivables	19	331,416	377,392	321,802	290,916
		1,901,291	2,894,250	3,497,308	2,797,057
Current assets					
Inventories	17	740,860	1,101,414	923,013	764,752
Other investments	18	–	303,000	10,567	9,478
Trade and other receivables	19	303,856	746,148	511,266	559,049
Income tax recoverable	23(a)	37	–	–	–
Restricted bank deposits	20	30	147,971	208,867	155,063
Cash and cash equivalents	20	168,294	465,707	248,073	806,325
		1,213,077	2,764,240	1,901,786	2,294,667
Current liabilities					
Trade and other payables	21	486,180	808,336	774,492	757,269
Contract liabilities	22	–	–	–	43,088
Loans and borrowings	24	305,346	186,667	156,323	135,615
Lease liabilities	25	165,325	312,590	470,195	425,290
Current taxation	23(a)	1,628	6,089	11,027	42,740
		958,479	1,313,682	1,412,037	1,404,002
Net current assets		254,598	1,450,558	489,749	890,665
Non-current liabilities					
Loans and borrowings	24	4,444	–	–	–
Financial liabilities measured at fair value through profit or loss	27	3,972,169	11,117,424	10,628,177	10,638,190
Deferred tax liabilities	23(b)	–	–	17,054	12,732
Lease liabilities	25	889,085	1,399,529	1,704,612	1,254,329
		4,865,698	12,516,953	12,349,843	11,905,251
NET LIABILITIES		(2,709,809)	(8,172,145)	(8,362,786)	(8,217,529)
Capital and Reserves					
Capital	26	10,135	7	7	7
Reserves	26	(2,757,630)	(8,350,974)	(8,394,723)	(8,222,008)
Total deficit attributable to equity shareholders of the Company		(2,747,495)	(8,350,967)	(8,394,716)	(8,222,001)
Non-controlling interests		37,686	178,822	31,930	4,472
TOTAL DEFICIT		(2,709,809)	(8,172,145)	(8,362,786)	(8,217,529)

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

(Expressed in RMB)

	Note	As at December 31, 2020	As at December 31, 2021	As at December 31, 2022	As at October 31, 2023
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current asset					
Investment in subsidiaries	*16*	27	27	27	27
Current assets					
Amounts due from subsidiaries	*19*	929,486	3,365,310	3,665,640	3,769,301
Cash and cash equivalents		218	1,116	164	1,398
		929,704	3,366,426	3,665,804	3,770,699
Current liabilities					
Loans and borrowings	*24*	247,947	–	–	–
Other payables	*21*	79,020	6,242	13,752	20,336
		326,967	6,242	13,752	20,336
Net current assets		602,737	3,360,184	3,652,052	3,750,363
Non-current liability					
Financial liabilities measured at fair value through profit or loss	*27*	945,768	11,117,424	10,628,177	10,638,190
NET LIABILITIES		(343,004)	(7,757,213)	(6,976,098)	(6,887,800)
Share capital and Reserves					
Share capital		7	7	7	7
Reserves	*26*	(343,011)	(7,757,220)	(6,976,105)	(6,887,807)
TOTAL DEFICIT		(343,004)	(7,757,213)	(6,976,098)	(6,887,800)

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in RMB)

		Attributable to equity shareholders of the Company						
	Note	Capital	Capital reserve	Exchange reserve	Accumulated losses	Total	Non-controlling interests	Total deficit
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		Note 26(a)	*Note 26(a)*	*Note 26(c)*				
At January 1, 2020		10,128	(82,119)	2	(640,530)	(712,519)	963	(711,556)
Changes in equity for the year ended December 31, 2020:								
Loss for the year		–	–	–	(2,016,324)	(2,016,324)	(883)	(2,017,207)
Other comprehensive income		–	–	(18,659)	–	(18,659)	12	(18,647)
Total comprehensive income		–	–	(18,659)	(2,016,324)	(2,034,983)	(871)	(2,035,854)
Issuance of ordinary shares	*26(a)*	7	–	–	–	7	–	7
Capital contribution from non-controlling interests	*26(e)*	–	–	–	–	–	38,574	38,574
Dividend paid to non-controlling shareholders in respect of the current year	*26(d)*	–	–	–	–	–	(980)	(980)
At December 31, 2020 and January 1, 2021		10,135	(82,119)	(18,657)	(2,656,854)	(2,747,495)	37,686	(2,709,809)
Changes in equity for the year ended December 31, 2021:								
Loss for the year		–	–	–	(5,625,587)	(5,625,587)	(55,764)	(5,681,351)
Other comprehensive income		–	–	31,906	–	31,906	9	31,915
Total comprehensive income		–	–	31,906	(5,625,587)	(5,593,681)	(55,755)	(5,649,436)
Reorganization	*26(a)*	(10,128)	337	–	–	(9,791)	–	(9,791)
Capital contribution from non-controlling interests	*26(e)*	–	–	–	–	–	196,891	196,891
At December 31, 2021 and January 1, 2022		7	(81,782)	13,249	(8,282,441)	(8,350,967)	178,822	(8,172,145)
Changes in equity for the year ended December 31, 2022:								
Profit/(loss) for the year		–	–	–	90,595	90,595	(28,731)	61,864
Other comprehensive income		–	–	(2,829)	–	(2,829)	59	(2,770)
Total comprehensive income		–	–	(2,829)	90,595	87,766	(28,672)	59,094
Acquisition of non-controlling interest	*26(f)*	–	–	–	(131,515)	(131,515)	(156,322)	(287,837)
Disposal of a subsidiary		–	–	–	–	–	(2,019)	(2,019)
Capital contribution from non-controlling interests	*26(e)*	–	–	–	–	–	40,121	40,121
At December 31, 2022 and January 1, 2023		7	(81,782)	10,420	(8,323,361)	(8,394,716)	31,930	(8,362,786)

The accompanying notes form part of the Historical Financial Information.

	Note	Attributable to equity shareholders of the Company						
		Capital	Capital reserve	Exchange reserve	Accumulated losses	Total	Non-controlling interests	Total deficit
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		Note 26(a)	*Note 26(a)*	*Note 26(c)*				
Changes in equity for the ten months ended October 31, 2023:								
Profit for the period		–	–	–	201,096	201,096	8,330	209,426
Other comprehensive income		–	–	6,157	–	6,157	–	6,157
Total comprehensive income		–	–	6,157	201,096	207,253	8,330	215,583
Acquisition of non-controlling interest	*26(f)*	–	–	–	(34,538)	(34,538)	(34,594)	(69,132)
Disposal of subsidiaries		–	–	–	–	–	(3,307)	(3,307)
Capital contribution from non-controlling interests	*26(e)*	–	–	–	–	–	2,113	2,113
At October 31, 2023		7	(81,782)	16,577	(8,156,803)	(8,222,001)	4,472	(8,217,529)
(Unaudited)								
At January 1, 2022		7	(81,782)	13,249	(8,282,441)	(8,350,967)	178,822	(8,172,145)
Changes in equity for the ten months ended October 31, 2022:								
Profit/(loss) for the period		–	–	–	244,944	244,944	(56,306)	188,638
Other comprehensive income		–	–	3,067	–	3,067	59	3,126
Total comprehensive income		–	–	3,067	244,944	248,011	(56,247)	191,764
Acquisition of non-controlling interest		–	(252,827)	–	–	(252,827)	43,121	(209,706)
Disposal of a subsidiary		–	–	–	–	–	(2,019)	(2,019)
Capital contribution from non-controlling interests	*26(e)*	–	–	–	–	–	39,435	39,435
At October 31, 2022		7	(334,609)	16,316	(8,037,497)	(8,355,783)	203,112	(8,152,671)

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in RMB)

	Note	Year ended December 31,			Ten months ended October 31,	
		2020	2021	2022	2022	2023
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Operating activities						
Cash (used in)/generated from operations	*20(a)*	(313,946)	(587,387)	299,175	223,888	1,208,130
Income tax paid		(124)	(2,314)	(3,901)	(3,901)	(6,391)
Net cash (used in)/generated from operating activities		(314,070)	(589,701)	295,274	219,987	1,201,739
Investing activities						
Payment for purchase of property, plant and equipment		(316,457)	(307,202)	(179,822)	(143,746)	(132,760)
Payment for purchase of intangible assets		(2,345)	(3,018)	–	–	(212)
Interest received from loans to franchisees		29,950	39,704	7,588	7,588	–
Interest received from deposits		485	3,510	7,117	5,684	10,477
Payment for loans to franchisees		(270,045)	–	–	–	–
Repayment of loans to franchisees		32,822	170,770	12,700	12,700	–
Payment for other investments		–	(303,000)	(350,000)	(350,000)	–
Proceeds from disposal of other investments		–	–	643,000	643,000	–
Interest received from other investments		–	–	3,073	3,073	–
Acquisition of non-controlling interests	*26(f)*	–	–	(40,830)	–	(105,583)
Acquisition of subsidiaries, net of cash acquired	*30*	–	–	(143,751)	(119,661)	(8,813)
Outflow of cash in respect of disposal of a subsidiary		–	–	(5,795)	(5,795)	–
Net cash (used in)/generated from investing activities		(525,590)	(399,236)	(46,720)	52,843	(236,891)
Financing activities						
Interest element of lease rentals paid	*20(b)*	(35,182)	(73,101)	(91,099)	(73,170)	(73,975)
Capital element of lease rentals paid	*20(b)*	(121,729)	(279,527)	(346,220)	(265,669)	(311,093)
Interest expense paid for loans and borrowings	*20(b)*	(13,970)	(18,410)	(12,375)	(10,839)	(6,948)

The accompanying notes form part of the Historical Financial Information.

		Year ended December 31,			Ten months ended October 31,	
	Note	**2020**	**2021**	**2022**	**2022**	**2023**
		RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
					(Unaudited)	
Proceeds from loans and borrowings	*20(b)*	309,790	214,031	198,935	198,935	135,615
Repayment of loans and borrowings	*20(b)*	(232,070)	(332,054)	(229,279)	(145,919)	(156,323)
Capital injection from non-controlling shareholders		232	–	–	–	2,113
Proceeds from issuance of redemption liabilities and convertible redeemable preferred shares	*20(b)*	872,141	1,788,452	–	–	–
Placement of restricted bank deposits	*20*	(30)	–	–	–	–
Payment arising from Reorganization	*1(b)*	–	(9,849)	–	–	–
Dividend paid to non-controlling shareholders of the Company		(980)	–	–	–	–
Net cash generated from/(used in) financing activities		778,202	1,289,542	(480,038)	(296,662)	(410,611)
Net (decrease)/increase in cash and cash equivalents		(61,458)	300,605	(231,484)	(23,832)	554,237
Cash and cash equivalents at the beginning of the year/period		233,291	168,294	465,707	465,707	248,073
Effect of foreign exchange rate change		(3,539)	(3,192)	13,850	21,492	4,015
Cash and cash equivalents at the end of the year/period	*20*	168,294	465,707	248,073	463,367	806,325

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

(a) General information

KK Group Company Holdings Limited (the "Company") was incorporated in the Cayman Islands on March 29, 2019 as an exempted company with limited liability under the Companies Act (As Revised) of the Cayman Islands.

The Company is an investment holding company and has not carried on any business operations since the date of its incorporation save for the group reorganization (the "Reorganization") described below. The Company and its subsidiaries (together, "the Group") are principally engaged in the retail and wholesale of a featured variety of cosmetics and beauty products, toys, food and beverages, and other household stationery (the "[**REDACTED**] Business") mainly in the People's Republic of China (the "PRC").

(b) Reorganization and basis of presentation

Prior to the incorporation of the Company, the [**REDACTED**] Business in the PRC was carried out by Guangdong Kuaike Electronic Commerce Co., Ltd. (廣東快客電子商務有限公司, "Guangdong Kuaike") and its subsidiaries. To rationalize the corporate structure in preparation of the [**REDACTED**] of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group underwent a Reorganization, as detailed in the section headed "History, Reorganization and Corporate Structure" in the document.

As part of the Reorganization, the Company (i) acquired 100% equity interests in Guangdong Kuaike through a wholly-owned subsidiary at a total cash consideration of RMB9,849,000, which was paid on June 29, 2021 which effectively terminated previous contractual arrangements with Guangdong Kuaike and (ii) incorporated certain new subsidiaries to operate the [**REDACTED**] Business in the PRC and in Indonesia. The Reorganization was completed on July 27, 2021 and the Company became the holding company of the Group since then.

The Reorganization is merely a recapitalization of the [**REDACTED**] Business with no substantive change in the economic substance of the ownership and the business of the Group before and after the Reorganization. Accordingly, the Historical Financial Information has been prepared and presented as a continuation of the financial information of the [**REDACTED**] Business with the assets and liabilities recognized and measured at their historical carrying amounts prior to the completion of the Reorganization.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the Relevant Periods as set out in this report include the financial performance and cash flows of the companies now comprising the Group as if the current group structure had been in existence and unchanged throughout the Relevant Periods (or where the companies were incorporated/established at a date later than January 1, 2020, for the period from the dates of incorporation/establishment to October 31, 2023). The consolidated statements of financial position of the Group as at December 31, 2020, 2021, 2022 and October 31, 2023, as set out in this report have been prepared to present the financial position of the companies now comprising the Group as at those dates as if the current group structure had been in existence as at the respective dates taking into account the respective dates of incorporation/establishment, where applicable. Intra-group balances, transactions and unrealized gain/loss on intra-group transactions are eliminated in full in preparing the Historical Financial Information.

(c) Subsidiaries

As at the date of this report, no audited financial statements have been prepared for the Company, as it has not carried on any business since the date of incorporation and is an investment holding company and not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation. The financial statements of the subsidiaries of the Group for which there are statutory requirements were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated and/or established.

As at the date of this report, the Company has direct or indirect interests in the following principal subsidiaries, all of which are private companies:

Company name	Place and date of incorporation/ establishment	Particulars of issued and paid-up capital	Proportion of Ownership interest		Principal activities
			Held by the Company	Held by the subsidiaries	
Guangdong Kuaike Electronic Commerce Co., Ltd. (廣東快客電子商務有限公司) *(Notes (a), (b) and (d))*	PRC April 13, 2015	Issued capital of RMB12,283,713 and paid-up capital of RMB9,849,283.13	–	100%	Investment holding and retail of lifestyle products
Dongguan Yueke Enterprise Management Service Co., Ltd. (東莞市悅客企業管理服務有限公司) *(Notes (a), (b) and (c))*	PRC August 11, 2015	Issued capital of RMB500,000 and paid-up capital of RMBnil	–	100%	Enterprise management services
Dongguan Kuaike Business Management Co., Ltd. (東莞市快客商業管理有限公司) *(Notes (a), (b) and (e))*	PRC April 13, 2016	Issued capital of RMB500,000 and paid-up capital of RMBnil	–	100%	Commerce management services
Shenzhen Mengke Supply Chain Technology Co., Ltd. (深圳市盟客供應鏈科技有限公司) *(Notes (a), (b) and (f))*	PRC April 3, 2020	Issued capital of RMB3,000,000,000 and paid-up capital of RMB2,136,271,000	–	100%	Provision of supply chain services
Guangzhou Mengke Supply Chain Technology Co., Ltd. (廣州市盟客供應鏈科技有限公司) *(Notes (a), (b) and (c))*	PRC November 11, 2020	Issued capital of RMB1,000,000,000 and paid-up capital of RMB480,330,000	–	100%	Provision of supply chain services
Dongguan Xingkong Trading Co., Ltd. (東莞市星空貿易有限公司) ("Dongguan Xingkong") *(Notes (a), (b), (c) and (g))*	PRC January 21, 2020	Issued capital of RMB300,000,000 and paid-up capital of RMB120,190,444	–	100%	Retail of lifestyle products

Notes:

(a) These entities were not subject to statutory audit requirement under the relevant rules and regulations in the jurisdiction of incorporation.

(b) The official names of these entities are in Chinese. The English translation of the names are for identification only.

(c) No audited financial statements have been prepared for these entities for the Relevant Periods.

(d) This entity voluntarily prepared its financial statements for the year ended December 31, 2020, 2021 and 2022 in accordance with the Accounting Standards for Business Enterprises (the "PRC GAAP"), which was audited by Daxin Certified Public Accountants of Shenzhen (Limited Liability Partnership) (大信會計師事務所(特殊普通合夥)) ("Daxin LLP").

(e) This entity voluntarily prepared its financial statements for the year ended December 31, 2020 in accordance with the PRC GAAP, which was audited by Daxin LLP. No financial statements have been prepared for the years ended December 31, 2021 and 2022.

(f) This entity voluntarily prepared its financial statements for the year ended December 31, 2021 and 2022 in accordance with the PRC GAAP, which was audited by Daxin LLP. No financial statements have been prepared for the years ended December 31, 2020.

(g) This entity was previously a joint venture of the Group and the acquisition of the 50% equity interest from the third-party investors of this entity was completed during the year ended December 31, 2022 (Note 30), resulting in the consolidation of this entity beginning on its acquisition date.

(d) Basis of preparation

The Historical Financial Information has been prepared under the going concern basis notwithstanding the fact that the Group was at a net liability position during the Relevant Periods. As at October 31, 2023, the Group had net liabilities of RMB8,217,529,000, including financial liabilities measured at fair value through profit or loss amounting to RMB10,638,190,000, which were recognized for the Group's obligation to redeem the convertible redeemable preferred shares issued by the Company upon occurrence of certain contingent events. Having considered the Group's plan to rollover its banking facilities to finance its continuing operations and the fact that the above-mentioned financial liabilities measured at fair value through profit or loss would be automatically terminated and be converted into equity upon [**REDACTED**], the directors of the Group are of the opinion that the Group will continue its operations and be able to settle its liabilities for at least the next 12 months, and therefore it is appropriate for the Historical Financial Information to be prepared on a going concern basis.

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Further details of the material accounting policy information adopted are set out in Note 2.

The HKICPA has issued a number of new and revised HKFRSs during the Relevant Periods. For the purpose of preparing this Historical Financial Information, the Group has consistently applied all applicable new and revised HKFRSs throughout the Relevant Periods. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in Note 34.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

2 MATERIAL ACCOUNTING POLICY INFORMATION

(a) Basis of measurement and functional and presentation currency

The measurement basis used in the preparation of the financial statements is the historical cost basis except for other investments and financial liabilities measured at fair value through profit or loss as explained in Notes 2(g) and 2(q).

Item included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the "Functional Currency"). The Historical Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand except where otherwise indicated. The functional currency of the Company is United States dollar.

(b) Use of estimates and judgements

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Business combination

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year/period between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no gain or loss is recognized.

When the Group loses control of a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, investment in subsidiaries are stated at cost less impairment losses (see Note 2(k)(ii)).

(e) Joint ventures

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group of investee's net asset and any impairment loss relating to the investment (see Note 2(k)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year/period are recognized in the consolidated statement of profit or loss and other comprehensive income, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the joint venture (after applying the ECL model to such other long-term interests where applicable (see Note 2(k)(i)).

Unrealized profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(k)(ii)).

(g) Other investments

The Group's policies for investments, other than investments in subsidiaries and joint ventures, are set out below.

Investments are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 28(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income.

Such elections are made on an instrument-by-instrument basis but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss.

(ii) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(v)(iii)).

– fair value through other comprehensive income ("FVOCI") recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognized in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVPL if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(k)(ii)). Construction in progress represents property and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write-off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Leasehold improvements	*Over the shorter of the lease term or the estimated useful life of the asset*
Motor vehicles	3-4 years
Office equipment	3-5 years
Store equipment, furniture and fittings	3-12 years

Both the useful life of an asset and its residual value, if any, are reviewed at each reporting period.

(i) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see Note 2(k)(ii)).

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortization and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

Software	2-6 years
Trademarks	2 years
Reacquired rights	Remaining period of the franchise contracts

Both the period and method of amortization are reviewed annually.

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognizes a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily staff apartments with lease term of less than 12 months. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalized are recognized as an expense on a systematic basis over the lease term.

Where the lease is capitalized, the lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortized cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognized when a lease is capitalized is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(h) and 2(k)(ii)). The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The estimated useful lives of right-of-use asset are determined on the same basis as those of property, plant and equipment.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16, *Leases*. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognized the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within 12 months after the reporting period.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and lease of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognizes a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortized cost (including cash and cash equivalents and trade receivables and other receivables.)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls of fixed-rate financial assets and other receivables are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– Lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognizes a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (ii) the financial asset is 30 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognized in accordance with Note 2(v)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

– becoming probable that the borrower will enter into bankruptcy or other financial reorganization;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of an impairment loss previously recognized no longer exists or may have decreased:

– intangible assets;

– property, plant and equipment;

– right-of-use assets;

– goodwill;

– investment in joint ventures; and

– investment in subsidiaries in the Company's statement of financial position

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

Impairment losses recognized in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates.

(l) Inventories

Inventories are assets which are held for sale, including the products placed at stores, and low value consumables to be consumed, in the ordinary course of business.

Inventories are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Cost of inventories is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the year/period in which the related revenue is recognized.

The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the year/period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the year/period in which the reversal occurs.

(m) Contract liabilities

A contract liability is recognized when the customer pays non-refundable consideration before the Group recognizes the related revenue (see Note 2(v)). A contract liability would also be recognized if the Group has an unconditional right to receive non-refundable consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized (see Note 2(n)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(n) Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortized cost using the effective interest method less allowance for credit losses (see Note 2(k)(i)).

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(k)(i).

(p) Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Financial liabilities measured at fair value through profit or loss ("Financial liabilities at FVPL")

Redemption liabilities

Guangdong Kuaike issued certain preferential rights together with its shares to some investors. With the preferential rights, the investors have the right to require Guangdong Kuaike to redeem all or part of the shares held by them upon occurrence of certain contingent events, which are beyond the control of the Group. Upon the completion of a qualified [**REDACTED**], all the preferential rights issued to the investors would automatically expire.

As the Group does not have an unconditional right to avoid occurrence of the contingent events, including change of control, the Group recognizes the ordinary shares with preferential rights, including its obligation to pay the redemption amounts upon such events as financial liabilities, i.e. the redemption liabilities. The redemption liabilities are designated as financial liabilities measured at fair value through profit or loss at initial recognition. Any transaction costs and subsequent changes in fair value are recognized in the statements of profit or loss and other comprehensive income. When the preferential rights of ordinary shareholders are terminated, the carrying amount of the financial liabilities at that time would be transferred to equity.

Convertible redeemable preferred shares

The Company issued certain convertible redeemable preferred shares to some investors. Also, as part of the Reorganization, the Group would replace the preferential rights and the ordinary shares issued by Guangdong Kuaike with the convertible redeemable preferred shares issued by the Company. For the convertible redeemable preferred shares issued, as the Company is obligated to redeem the preferred shares upon occurrence of the contingent events (such as change of control) which are beyond its control, the Group classifies the convertible redeemable preferred shares issued as financial liabilities and has designated as financial liabilities measured at fair value through profit or loss at initial recognition. Any transaction costs and subsequent changes in fair value are recognized in thestatements of profit or loss and other comprehensive income. If the convertible redeemable preferred shares are converted into ordinary shares where the preferential rights are terminated, the carrying amount of the financial liabilities at that time would be transferred to equity.

(r) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (see Note 2(y)).

(s) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contribution to appropriate local defined contribution retirement schemes pursuant to the relevant labor rules and regulations in the Mainland China are recognized as an expense in profit or loss as incurred.

(ii) Termination benefits

Termination benefits are recognized at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognizes restructuring costs involving the payment of termination benefits.

(t) Income tax

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the "Group" controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(u) Provisions and contingent liabilities

Provisions are recognized when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of products and the provision of services.

Revenue is recognized when control over the product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled in exchange for the satisfaction of a specific performance obligation, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

The Group allocates the transaction price expected to be received from franchisees to different performance obligations based on their relative standalone selling prices. In particular, the consideration in arrangements with franchisees includes sales-based amounts. Such sales-based amounts are excluded from the transaction price until the sales by franchisees have occurred and would be allocated entirely to the service fee as they relate entirely to the Group's promise to provide management and logistics services to franchisees.

The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15, *Revenue from Contracts with Customers*, and does not adjust the consideration for the effects of any significant financing component if the expected period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of products

– *Retail sales in self-owned stores*

Revenue from retail sales to customers in self-owned stores is recognized at the point when the end customer takes possession of and pays for the products.

– *Product sales to franchisees*

The Group has entered into a series of franchise agreements with franchisees, primarily in the PRC, whereby the franchisees are authorized to operate the franchised stores and are authorized to sell, in their own retail stores, the Group's products. Revenue from sales to these franchisees is recognized at the point when they obtain the legal title of the product and become obliged to pay for the products, which is when the franchisees sell the product to their customers (i.e. end customers who visit the stores) in the franchisees' stores.

For product sales to franchisees, the Group has determined that the franchisees are the customers of the Group. The franchisees operate retail stores under the framework set out under the franchise agreements and is primarily responsible for fulfilling the promise to provide goods to the customers, and determining sales strategy according to elements such as location, cities and seasons, etc. The franchisees employ and manage their own staff to operate the stores and serve their customers, and bear the costs associated with store operation. The franchisees' retail stores carry a wide range of merchandise as recommended from the Group's system, and the franchisee may exercise discretion in selection of merchandise to be featured at their retail stores. The franchisees have the right to price their merchandise within a specified range of the recommended retail price set by the Group.

In general, the Group does not have any obligation or practice to accept any return of unsold products, except for rare cases such as a latent defect subject to a product recall or certain limited seasonal items that have passed their sales season.

(ii) Sales-based management and consultation service income

Franchisees are also required to pay sales-based management and consultation services income for their access to such services. Sales-based management and consultation service income are recognized when the related product sales occur.

(iii) Interest income

Interest income is recognized as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognized in the statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as other income in profit or loss based on the timing of when the related costs for which the grants are intended to compensate are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(w) Translation of foreign currencies

Foreign currency transactions during the year/period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into RMB at the average exchange rates for the year which approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

(x) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(y) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(aa) Interests in unincorporated franchise stores and the related conversion

The Group has arrangements with some franchisees whereby the Group invested in certain unincorporated stores in their initial phase that were owned and controlled by these franchisees. In such arrangements, the Group contributed towards certain property, plant and equipment of the stores in return for the right to a specified percentage of the operating profits in those stores. The Group has accounted for its respective interests of assets and profits in accordance with the terms of the arrangements. The Group's interest of assets has been included as part of the Group's property, plant and equipment, and stated at cost less accumulated depreciation and any accumulated impairment losses (see note 2(h)).

Some of the above-mentioned stores were subsequently acquired by legal entities established by the Group and the franchisees (the "conversion") at valuation based on the carrying amounts of respective party's interests in the stores immediately before the conversion. In cases where the acquiring legal entities are the Group's subsidiaries, the Group has elected to apply the optional concentration test in accordance with HKFRS 3 *Business combinations* and deemed the conversions as asset acquisitions when the test is met (see Note 2(bb)). In cases where the acquiring legal entities are the Group's joint ventures, the Group has initially recognized its interests in the joint ventures at the carrying amount of its share of the property, plant and equipment in the related stores immediately before the conversion, and has subsequently applied the equity method (see Note 2(e)).

(bb) Asset acquisition

Groups of assets acquired and liabilities assumed are assessed to determine if they are business or asset acquisitions. On an acquisition-by-acquisition basis, the Group chooses to apply a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

When a group of assets acquired and liabilities assumed do not constitute a business, the overall acquisition cost is allocated to the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. An exception is when the sum of the individual fair values of the identifiable assets and liabilities differs from the overall acquisition cost. In such case, any identifiable assets and liabilities that are initially measured at an amount other than cost in accordance with the Group's policies are measured accordingly, and the residual acquisition cost is allocated to the remaining identifiable assets and liabilities based on their relative fair values at the date of acquisition.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made the following accounting judgements and estimates:

(a) Recognition of deferred tax assets

Deferred tax assets are recognized in respect of deductible temporary differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilized, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(b) Impairments of amounts due from franchisee

The Group estimates the loss allowance on amounts due from franchisees based on the credit risk of the respective financial instruments. The loss allowance amount is estimated based on the difference between the carrying amount of the amounts due from franchisees and the present value of estimated future cash flows after considering the expected future credit loss on the respective amounts. The assessment of the credit risk of the respective amounts involves high degree of estimation and uncertainty. When the actual future cash flows are less than or more than expected, a material impairment loss or a material of impairment loss may arise, accordingly.

(c) Impairments of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in Note 14.

(d) Impairments of other non-current assets

In considering the impairment losses that may be required for certain property, plant and equipment and right-of-use assets, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of fair value less costs of disposal and the value in use. It is difficult to precisely estimate fair value because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and operating costs.

(e) Write-down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of change in the market condition.

(f) Fair value measurement of financial instruments using valuation techniques

As disclosed in Note 27, the fair value of redemption liabilities and convertible redeemable preferred shares at each balance sheet dates were determined based on the valuation performed by an independent valuer, using valuation techniques. The Group uses its judgements to select a variety of methods and make assumptions that are mainly based on market conditions existing at the respective valuation dates. The Group has used discounted cash flow to determine the business value of the Group, followed by option pricing models to determine the fair value of financial instruments with preferred rights, which involved the use of accounting judgements and estimates.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group principally engaged in the retail and wholesale of a featured variety of cosmetics and beauty products, toys, food and beverages, and other household stationery.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by categories and brands of stores are as follows:

By major categories

	Year ended December 31,			Ten months ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Retail sales from self-owned stores	581,845	2,001,345	2,270,520	1,957,630	3,726,036
Sales to franchise stores	946,548	1,338,195	970,817	868,079	636,694
Sales-based management and consultation service income.	79,795	134,105	97,887	79,656	70,262
Online sales	25,443	18,243	149,766	106,652	273,991
Others	12,273	31,966	61,961	54,509	62,294
Total	1,645,904	3,523,854	3,550,951	3,066,526	4,769,277

* Including RMB10,284,000, RMB24,681,000, RMB7,359,000, RMB4,253,000 and RMB4,443,000 as the Group's entitlement to certain franchise stores' operating result for the years ended December 31, 2020, 2021, 2022 and the ten months ended October 31, 2022 and 2023.

By brands of stores

	Year ended December 31,			Ten months ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
KK Guan	320,885	225,775	139,054	126,194	101,464
KKV	834,734	2,235,379	2,362,134	2,034,247	3,270,393
THE COLORIST	439,729	853,102	598,402	530,529	756,307
X11	12,840	159,389	239,634	214,395	304,828
Others	37,716	50,209	211,727	161,161	336,285
Total	1,645,904	3,523,854	3,550,951	3,066,526	4,769,277

All of the Group's revenues are recognized at a point in time, and all contracts entered by the Group are for periods of one year or less. No information is provided about remaining performance obligations at reporting dates above that have an original expected duration of one year or less, as allowed by paragraph 121 of HKFRS 15.

The revenue from one customer of the Group represented approximately 13%, 10% and 12% of the Group's total revenue for the years ended December 31, 2021 and 2022 and for the ten months ended October 31, 2022, respectively. There was no revenue from an individual customer contributing over 10% of total revenue of the Group during the year ended December 31, 2020 and for the ten months ended October 31, 2023.

(b) Segment reporting

The Group manages its businesses as a whole by the most senior executive management for the purposes of resource allocation and performance assessment. The Group has one operating segment, which is the sales of variable lifestyle products. The Group's chief operating decision maker is the key management personnel of the Group who reviews the Group's results of operations in assessing performance of and making decisions about allocations to this segment. Accordingly, no reportable segment information is presented.

As substantially all of the Group's operations and assets are in the PRC, no geographic information is presented.

5 OTHER INCOME

	Year ended December 31,			Ten months ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Government grants *(Note i)*	1,682	1,664	39,446	37,918	27,293
Interest income from deposits and cash equivalents	485	3,510	7,117	5,684	10,477
Interest income from loans to franchisees	29,950	39,704	8,083	7,588	572
Interest income from other investments	–	1,850	3,073	3,073	–
Fair value changes of other investments	–	–	567	303	(1,089)
Renovation income	1,695	9,333	2,558	1,837	–
Others	1,076	5,133	1,416	1,366	140
	34,888	61,194	62,260	57,769	37,393

Note:

(i) Government grants mainly represented unconditional cash subsidies received by certain subsidiaries from the local government for COVID-19 related relief for the year ended December 31, 2022, and recognizing the Group's high quality of development in the Guangdong Province for the year ended December 31, 2022 and 2023. There are no unfulfilled conditions or contingencies relating to such government grants.

6 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Year ended December 31,			Ten months ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interests on loans and borrowings	13,970	18,410	12,375	10,839	6,948
Interests on lease liabilities	35,182	73,101	91,099	73,170	73,975
	49,152	91,511	103,474	84,009	80,923

(b) Staff costs (including directors' emoluments)

	Year ended December 31,			Ten months ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Contributions to defined contribution retirement plans	1,009	25,467	25,394	21,746	26,440
Salaries, wages and other benefits	183,854	434,555	493,516	400,712	530,291
	184,863	460,022	518,910	422,458	556,731

The PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "Schemes") organized by the PRC municipal and provincial government authorities whereby the PRC subsidiaries are required to make contributions at the applicable rate of the eligible employees' salaries to the Schemes. The Group has accrued for the required contributions which are remitted to the respective local government authorities when the contributions become due. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes.

The Group has no other material obligation for the payment of pension benefits beyond the contributions described above.

(c) Other items

	Year ended December 31,			Ten months ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Amortization *(Note 13)*	1,513	1,831	4,374	1,300	17,837
Depreciation					
– Property, plant and equipment *(Note 11)*	55,390	134,513	171,189	136,522	163,624
– Right-of-use assets *(Note 12)*	166,037	336,310	479,505	375,155	406,965
Impairment losses recognized/(reversed) on					
– Property, plant and equipment *(Note 11)*	13,626	19,715	6,102	1,311	5,911
– Right-of-use assets *(Note 12)*	4,866	12,044	34,863	20,631	16,026
– Trade and other receivables *(Note 28(a))*	–	13,975	7,041	5,548	(723)
Net foreign exchange loss/(gain)	1,986	14,752	(20,956)	(23,691)	(2,800)
Loss on disposal of property, plant and equipment	2,479	25,157	31,535	25,661	61,743
Gain from termination of lease contracts on stores' closures*	–	(15,181)	(25,199)	(28,652)	(78,455)
Auditors' remuneration	66	134	240	89	380
Cost of inventories *(Note 17)*	1,146,191	2,200,332	2,125,422	1,847,956	2,520,227
[REDACTED]	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

* The Group recorded a gain on termination of lease contracts upon store closures as the carrying amounts of lease liabilities exceeded the carrying amounts of the right-of-use assets when the related stores were closed, lease contracts were early terminated or transferred to variable rent.

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represents:

	Year ended December 31,			Ten months ended October 31,	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
				(Unaudited)	
Current tax	1,868	6,812	8,839	24,541	38,104
Deferred tax	(35,040)	(43,585)	(89,454)	(72,563)	48,940
	(33,172)	(36,773)	(80,615)	(48,022)	87,044

(b) Reconciliation between income tax and accounting (loss)/profit at applicable tax rates:

	Year ended December 31,			Ten months ended October 31,	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
				(Unaudited)	
(Loss)/profit before taxation	(2,050,379)	(5,718,124)	(18,751)	140,616	296,470
Notional tax on (loss)/profit before taxation, calculated at the standard tax rates applicable to the respective tax jurisdictions	(484,472)	(81,553)	(124,994)	(76,887)	75,477
Effect of preferential income tax rate of a subsidiary *(Note (v))*	–	(11,342)	(10,592)	(4,667)	(5,034)
Tax effect of fair value changes of financial liabilities measured at FVPL *(Note (vii))*	436,819	–	–	–	–
Tax effect of share of losses/(profit) from joint ventures	4,043	8,076	20,422	17,948	(2,771)
Tax effect of deductible temporary differences not recognized	6,918	33,053	20,178	861	27,199
Tax effect of non-deductible expenses	1,246	1,701	1,280	1,222	1,782
Tax effect of unused tax losses not recognized	2,274	13,292	11,060	13,501	1,105
Effect on deferred tax balances resulting from a change in tax rate *(Note (vi))*	–	–	2,031	–	–
Tax effect of utilization of unused losses which were not recognized	–	–	–	–	(10,714)
Total income tax	(33,172)	(36,773)	(80,615)	(48,022)	87,044

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

(ii) The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Relevant Periods. No provision for Hong Kong Profits Tax was made as the Group's subsidiaries in Hong Kong did not generate assessable profits during the Relevant Periods.

(iii) The Corporate Income Tax ("CIT") rate applicable to the subsidiaries registered in the PRC is 25% for the Relevant Periods.

(iv) The tax rate applicable to the subsidiaries registered in Indonesia is 22% for the Relevant Periods.

(v) Starting from January 1, 2021, Shenzhen Xinke Software Technology Service Co., Ltd. ("Shenzhen Xinke") fulfilled the criteria required for preferential income tax rate granted to "Software Enterprises" in the PRC, and is entitled to an income tax exemption for two years starting from its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years.

(vi) Rongke Enterprise Management Service (Guangdong) Co., Ltd. entitles to enjoy the preferential income tax rate of 15% as a qualified enterprise registered in Hengqin District of Zhuhai when criteria required fulfilled after 2023.

(vii) Fair value loss arising from ordinary shares with preferential rights issued by Guangdong Kuaike and recognized as financial liabilities measured at FVPL was non-deductible in the PRC during the year ended December 31, 2020.

During the year ended December 31, 2021, the investors subsequently exchanged the ordinary shares and the preferential rights they held in Guangdong Kuaike, with the Group for the convertible redeemable preferred shares issued by the Company (see note 27) who is not subject to any income tax in the Cayman Islands.

8 DIRECTORS' EMOLUMENTS

Details of emoluments of the directors of the Company during the Relevant Periods are as follows:

	Directors' fees	Salaries, allowances and other benefits in kind	Retirement scheme contributions	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2020					
Executive directors					
Mr. Wu Yuening *(Note (a))*	–	615	2	–	617
Mr. Guo Huibo *(Note (b))*	–	585	2	–	587
Ms. Peng Yao *(Note (c))*	–	857	2	303	1,162
Ms. Shu Yanfang *(Note (c))*	–	752	2	130	884
Mr. Chen Shixin *(Note (c))*	–	382	2	70	454
Non-executive directors					
Mr. Zheng Rongqing *(Note (d))*	–	–	–	–	–
Mr. Xiao Min *(Note (d))*	–	–	–	–	–
Mr. Chen Xian *(Note (d))*	–	–	–	–	–
Mr. Liang Jie *(Note (d))*	–	–	–	–	–
Total	–	3,191	10	503	3,704

	Directors' fees	Salaries, allowances and other benefits in kind	Retirement scheme contributions	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2021					
Executive directors					
Mr. Wu Yuening *(Note (a))*	–	604	36	–	640
Mr. Guo Huibo *(Note (b))*	–	604	36	–	640
Ms. Peng Yao *(Note (c))*	–	1,060	36	176	1,272
Ms. Shu Yanfang *(Note (c))*	–	928	36	140	1,104
Mr. Chen Shixin *(Note (c))*	–	481	36	126	643
Non-executive directors					

	Directors' fees	Salaries, allowances and other benefits in kind	Retirement scheme contributions	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Zheng Rongqing *(Note (d))*	–	–	–	–	–
Mr. Xiao Min *(Note (d))*	–	–	–	–	–
Mr. Chen Xian *(Note (d))*	–	–	–	–	–
Mr. Liang Jie *(Note (d))*	–	–	–	–	–
Total	–	3,677	180	442	4,299

	Directors' fees	Salaries, allowances and other benefits in kind	Retirement scheme contributions	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2022					
Executive directors					
Mr. Wu Yuening *(Note (a))*	–	624	41	–	665
Mr. Guo Huibo *(Note (b))*	–	624	41	–	665
Ms. Peng Yao *(Note (c))*	–	1,085	42	–	1,127
Ms. Shu Yanfang *(Note (c))*	–	1,085	42	–	1,127
Mr. Chen Shixin *(Note (c))*	–	508	42	–	550
Non-executive director					
Mr. Liang Jie *(Note (d))*	–	–	–	–	–
Total	–	3,926	208	–	4,134

	Directors' fees	Salaries, allowances and other benefits in kind	Retirement scheme contributions	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ten months ended October 31, 2023					
Executive directors					
Mr. Wu Yuening *(Note (a))*	–	525	40	–	565
Mr. Guo Huibo *(Note (b))*	–	544	40	–	584
Ms. Peng Yao *(Note (c))*	–	929	37	–	966
Ms. Shu Yanfang *(Note (c))*	–	929	37	–	966
Mr. Chen Shixin *(Note (c))*	–	460	37	–	497
Non-executive director					
Mr. Liang Jie *(Note (d))*	–	–	–	–	–
Independent non-executive directors					
Mr. Yu Jianfeng *(Note (e))*	–	–	–	–	–
Ms. Shi Meng *(Note (e))*	–	–	–	–	–
Mr. Ying Kejing *(Note (e))*	–	–	–	–	–
Total	–	3,387	191	–	3,578

	Directors' fees	Salaries, allowances and other benefits in kind	Retirement scheme contributions	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ten months ended October 31, 2022 (Unaudited)					
Executive directors					
Mr. Wu Yuening *(Note (a))*	–	550	35	–	585
Mr. Guo Huibo *(Note (b))*	–	550	35	–	585
Ms. Peng Yao *(Note (c))*	–	988	35	–	1,023
Ms. Shu Yanfang *(Note (c))*	–	977	35	–	1,012
Mr. Chen Shixin *(Note (c))*	–	464	35	–	499
Non-executive director					
Mr. Liang Jie *(Note (d))*	–	–	–	–	–
Total	–	3,529	175	–	3,704

Notes:

(a) Mr. Wu Yuening was appointed as an executive director of the Company on August 7, 2020. He is the founder and, a key management personnel of the Group, as well as the directors of certain subsidiaries within the Group during the Relevant Periods prior to his appointment. His remuneration disclosed above include those for services rendered by him as a key management personnel.

(b) Mr. Guo Huibo was appointed as an executive director of the Company on March 29, 2019. He is a key management personnel of the Group, as well as the directors of certain subsidiaries within the Group during the Relevant Periods. His remuneration disclosed above included those for services rendered by him as a key management personnel.

(c) Ms. Peng Yao, Ms. Shu Yanfang and Mr. Chen Shixin were appointed as executive directors of the Company on August 7, 2020. They are key management personnel of the Group during the Relevant Periods and their remuneration disclosed above include those for serviced rendered by them as key management personnel.

(d) Mr. Zheng Rongqing, Mr. Xiao Min, Mr. Chen Xian and Mr. Liang Jie were appointed as non-executive directors of the Company on August 7, 2020. Mr. Zheng Rongqing, Mr. Xiao Min and Mr. Chen Xian resigned on September 19, 2021 due to an adjustment to the board composition.

(e) Mr. Yu Jianfeng, Ms. Shi Meng and Mr. Ying Kejing were appointed as independent non-executive directors of the Company with effect from [the [**REDACTED**]] and therefore no emolument were paid or payable during the Relevant Period.

(f) During the Relevant Periods, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in Note 9 below as an inducement to join or upon joining the Group or as a compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two, two, two, two and two individuals were directors of the Company for the years ended December 31, 2020, 2021, 2022 and the ten months ended October 31, 2022 and 2023, whose emoluments are disclosed in Note 8 above. The aggregate of the emoluments in respect of the other three, three, three, three and three individuals for the Relevant Periods are as follows:

	Year ended December 31,			Ten months ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries and other emoluments	2,708	3,422	4,020	2,438	2,434
Discretionary bonuses	–	130	–	–	–
Retirement scheme contributions	7	114	125	105	115
	2,715	3,666	4,145	2,543	2,549

The emoluments of the above other three, three, three, three and three individuals for the Relevant Periods, are within the following band:

	Year ended December 31,			Ten months ended October 31,	
	2020	2021	2022	2022	2023
	Number of Individuals	*Number of Individuals*	*Number of Individuals*	*Number of Individuals*	*Number of Individuals*
				(Unaudited)	
HK$Nil to HK$1,000,000	3	1	1	2	2
HK$1,000,001 to HK$1,500,000	–	1	1	1	1
HK$1,500,001 to HK$2,000,000	–	1	–	–	–
HK$2,000,001 to HK$2,500,000	–	–	1	–	–

10 (LOSS)/PROFIT PER SHARE

(Loss)/profit per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization and the presentation of the results for the Relevant Periods using the basis of preparation and presentation as disclosed in Note 1.

11 PROPERTY, PLANT AND EQUIPMENT

	Note	Leasehold improvements	Office equipment	Motor vehicles	Store equipment, furniture and fittings	Construction in progress	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At January 1, 2020		75,100	3,861	2,556	35,470	13,401	130,388
Additions							
– Purchase		–	952	–	163,491	224,460	388,903
– Transfer from construction in progress		223,229	–	–	–	(223,229)	–
Disposals		(14,174)	(156)	–	(10,987)	–	(25,317)
Exchange differences		(2)	(9)	–	–	–	(11)

	Note	Leasehold improvements	Office equipment	Motor vehicles	Store equipment, furniture and fittings	Construction in progress	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2020 and January 1, 2021		284,153	4,648	2,556	187,974	14,632	493,963
Additions							
– Purchase		217,122	2,806	2,792	198,766	7,248	428,734
– Transfer from construction in progress		14,632	–	–	–	(14,632)	–
Disposals		(53,402)	(962)	(168)	(47,213)	–	(101,745)
Exchange differences		(1)	(7)	–	–	–	(8)
At December 31, 2021 and January 1, 2022		462,504	6,485	5,180	339,527	7,248	820,944
Additions							
– Purchase		107,315	407	2,381	84,390	16,387	210,880
– Transfer from construction in progress		11,940	–	–	–	(11,940)	–
– Acquired upon acquisition of subsidiaries	*30*	107,855	–	–	84,081	–	191,936
Disposals		(84,108)	(2,573)	(919)	(43,018)	–	(130,618)
Exchange differences		–	(1)	–	–	–	(1)
At December 31, 2022 and January 1, 2023		605,506	4,318	6,642	464,980	11,695	1,093,141
Additions							
– Purchase		16,644	1,792	864	5,311	76,313	100,924
– Transfer from construction in progress		38,852	–	–	40,748	(79,600)	–
– Acquired upon acquisition of subsidiaries	*30*	2,476	–	–	2,486	–	4,962
Disposals		(70,456)	(338)	–	(60,160)	–	(130,954)
Exchange differences		1	11	–	–	–	12
At October 31, 2023		593,023	5,783	7,506	453,365	8,408	1,068,085
Accumulated depreciation:							
At January 1, 2020		(17,406)	(1,433)	(71)	(5,960)	–	(24,870)
Charge for the year		(32,114)	(1,070)	(607)	(21,599)	–	(55,390)
Written back on disposals		7,271	55	–	5,846	–	13,172
Exchange differences		–*	–*	–	–	–	–
At December 31, 2020 and January 1, 2021		(42,249)	(2,448)	(678)	(21,713)	–	(67,088)
Charge for the year		(78,108)	(2,186)	(1,014)	(53,205)	–	(134,513)
Written back on disposals		10,956	369	91	10,442	–	21,858
Exchange differences		–	(2)	–	–	–	(2)
At December 31, 2021 and January 1, 2022		(109,401)	(4,267)	(1,601)	(64,476)	–	(179,745)
Charge for the year		(95,733)	(1,095)	(1,509)	(72,852)	–	(171,189)
Written back on disposals		48,443	2,469	534	18,058	–	69,504
Exchange differences		–*	(67)	–	–	–	(67)
At December 31, 2022 and January 1, 2023		(156,691)	(2,960)	(2,576)	(119,270)	–	(281,497)
Charge for the period		(90,794)	(762)	(1,381)	(70,687)	–	(163,624)
Written back on disposals		30,383	106	–	30,652	–	61,141
Exchange differences		–	(61)	–	–	–	(61)
At October 31, 2023		(217,102)	(3,677)	(3,957)	(159,305)	–	(384,041)

	Note	Leasehold improvements	Office equipment	Motor vehicles	Store equipment, furniture and fittings	Construction in progress	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Impairment losses:							
At January 1, 2020		(5,426)	–	–	(2,320)	–	(7,746)
Charge for the year		(6,825)	–	–	(6,801)	–	(13,626)
Written back on disposals		669	–	–	–	–	669
At December 31, 2020 and January 1, 2021		(11,582)	–	–	(9,121)	–	(20,703)
Charge for the year		(13,572)	–	–	(6,143)	–	(19,715)
Written back on disposals		10,239	–	–	8,591	–	18,830
At December 31, 2021 and January 1, 2022		(14,915)	–	–	(6,673)	–	(21,588)
Charge for the year		(5,516)	–	–	(586)	–	(6,102)
Written back on disposals		5,292	–	–	2,316	–	7,608
At December 31, 2022 and January 1, 2023		(15,139)	–	–	(4,943)	–	(20,082)
Charge for the period		(5,911)	–	–	–	–	(5,911)
Written back on disposals		4,640	–	–	–	–	4,640
At October 31, 2023		(16,410)	–	–	(4,943)	–	(21,353)
Net book value:							
At December 31, 2020		230,322	2,200	1,878	157,140	14,632	406,172
At December 31, 2021		338,188	2,218	3,579	268,378	7,248	619,611
At December 31, 2022		433,676	1,358	4,066	340,767	11,695	791,562
At October 31, 2023		359,511	2,106	3,549	289,117	8,408	662,691

* Less than RMB500

Directors of the Group conduct impairment testing on each individual store, which are considered as individual cash-generating units ("CGU"). As at the end of each reporting period, the recoverable amount of each CGU with indication of impairment is estimated, based on value-in-use calculations by preparing cash flow projections of the relevant CGU derived from the most recent financial forecast approved by the management covering the remaining lease term. The cash flows are discounted using discount rates ranging from 15.1% to 18.8%. The discount rates used are pre-tax and reflects specific risks relating to the relevant CGU.

As at December 31, 2020, 2021, 2022 and October 31, 2023, the carrying amounts of certain CGUs exceeded their recoverable amounts, therefore, an impairment loss was allocated to the right-of-use assets ("ROUs"), leasehold improvements and store equipment, furniture and fittings, etc, within each CGU on a pro rata basis. An impairment loss of RMB13,626,000, RMB19,715,000, RMB6,102,000, RMB1,311,000 and RMB5,911,000 for property, plant and equipment and an impairment loss of RMB4,866,000, RMB12,044,000, RMB34,863,000, RMB20,631,000 and RMB16,026,000 for ROUs, were recognized in profit or loss in "Administrative and other operating expenses" (see Note 6(c)) for the years ended December 31, 2020, 2021, 2022 and the ten months ended October 31, 2022 and 2023, respectively.

12 RIGHT-OF-USE ASSETS

The Group leases properties for its office space, retail stores and warehouses. Information about leases for which the Group is a lessee is detailed as follows:

	Note	Properties	Warehouses	Total
		RMB'000	RMB'000	RMB'000
Cost:				
At January 1, 2020		417,397	9,435	426,832
Additions		833,192	13,711	846,903
Disposals		(24,353)	–	(24,353)
Exchange differences		(692)	–	(692)
At December 31, 2020 and January 1, 2021		1,225,544	23,146	1,248,690
Additions		1,147,952	23,392	1,171,344
Disposals		(279,505)	–	(279,505)
Exchange differences		(893)	–	(893)
At December 31, 2021 and January 1, 2022		2,093,098	46,538	2,139,636
Additions		518,714	14,287	533,001
Acquired upon acquisition of subsidiaries	*30*	504,873	–	504,873
Disposals		(353,529)	–	(353,529)
Exchange differences		195	–	195
At December 31, 2022 and January 1, 2023		2,763,351	60,825	2,824,176
Additions		374,474	11,301	385,775
Acquired upon acquisition of subsidiaries	*30*	14,085	–	14,085
Disposals		(769,612)	–	(769,612)
At October 31, 2023		2,382,298	72,126	2,454,424
Accumulated depreciation:				
At January 1, 2020		(43,262)	(3,513)	(46,775)
Charge for the year		(160,613)	(5,424)	(166,037)
Written back on disposals		22,916	–	22,916
Exchange differences		122	–	122
At December 31, 2020 and January 1, 2021		(180,837)	(8,937)	(189,774)
Charge for the year		(328,173)	(8,137)	(336,310)
Written back on disposals		64,463	–	64,463
Exchange differences		157	–	157
At December 31, 2021 and January 1, 2022		(444,390)	(17,074)	(461,464)
Charge for the year		(458,658)	(20,847)	(479,505)
Written back on disposals		149,805	–	149,805
Exchange differences		(80)	–	(80)
At 31 December, 2022 and January 1, 2023		(753,323)	(37,921)	(791,244)
Charge for the period		(393,423)	(13,542)	(406,965)
Written back on disposals		276,694	–	276,694
At October 31, 2023		(870,052)	(51,463)	(921,515)
Impairment losses:				
At January 1, 2020		(13,545)	–	(13,545)
Charge for the year		(4,866)	–	(4,866)
Written back on disposals		1,437	–	1,437
At December 31, 2020 and January 1, 2021		(16,974)	–	(16,974)
Charge for the year		(12,044)	–	(12,044)
Written back on disposals		13,801	–	13,801
At December 31, 2021 and January 1, 2022		(15,217)	–	(15,217)
Charge for the year		(34,863)	–	(34,863)
Written back on disposals		9,213	–	9,213

	Note	Properties	Warehouses	Total
		RMB'000	RMB'000	RMB'000
At December 31, 2022 and January 1, 2023		(40,867)	–	(40,867)
Charge for the period		(16,026)	–	(16,026)
Written back on disposals		39,424	–	39,424
At October 31, 2023		(17,469)	–	(17,469)
Net book value:				
At December 31, 2020		1,027,733	14,209	1,041,942
At December 31, 2021		1,633,491	29,464	1,662,955
At December 31, 2022		1,969,161	22,904	1,992,065
At October 31, 2023		1,494,777	20,663	1,515,440

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 20(c) and 25, respectively.

The analysis of expense items in relation to leases recognized in profit or loss is as follows:

	Year ended December 31,			Ten months ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Depreciation charge of right-of-use assets by class of underlying asset:					
Properties	160,613	328,173	458,658	354,583	393,423
Warehouses	5,424	8,137	20,847	20,572	13,542
Interest on lease liabilities *(Note 6(a))*	35,182	73,101	91,099	73,170	73,975
Expense relating to short-term leases	6,147	10,055	11,902	10,078	25,906
Variable lease payments not included in the measurement of lease liabilities	5,286	12,863	22,311	19,616	51,806
Rent concessions received	(31,993)	(16,950)	(56,404)	(34,465)	(51,978)

The Group has obtained the right to use properties as its retail stores, warehouses and offices through tenancy agreements. The leases typically run for an initial period of 3 to 12 years.

13 INTANGIBLE ASSETS

	Note	Software	Trademarks	Reacquired rights	Total
		RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At January 1, 2020		1,675	1,095	–	2,770
Additions		360	1,508	–	1,868
Disposals		(335)	–	–	(335)
At December 31, 2020 and January 1, 2021		1,700	2,603	–	4,303
Additions		2,277	741	–	3,018
At December 31, 2021 and January 1, 2022		3,977	3,344	–	7,321
Acquired upon acquisition of subsidiaries	30	–	–	70,500	70,500

	Note	Software	Trademarks	Reacquired rights	Total
		RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2022 and January 1, 2023		3,977	3,344	70,500	77,821
Additions		212	–	–	212
At October 31, 2023		4,189	3,344	70,500	78,033
Accumulated amortization:					
At January 1, 2020		456	405	–	861
Charge for the year		432	1,081	–	1,513
Written back on disposals		(176)	–	–	(176)
At December 31, 2020 and January 1, 2021		712	1,486	–	2,198
Charge for the year		717	1,114	–	1,831
At December 31, 2021 and January 1, 2022		1,429	2,600	–	4,029
Charge for the year		1,064	461	2,849	4,374
At December 31, 2022 and January 1, 2023		2,493	3,061	2,849	8,403
Charge for the period		894	219	16,724	17,837
At October 31, 2023		3,387	3,280	19,573	26,240
Net book value:					
At December 31, 2020		988	1,117	–	2,105
At December 31, 2021		2,548	744	–	3,292
At December 31, 2022		1,484	283	67,651	69,418
At October 31, 2023		802	64	50,927	51,793

The reacquired right represents an intangible asset arising from the reacquiring of rights granted to previous joint ventures to use the Group's trade name and technologies under franchise agreements, as a result of business combinations (see Note 30). It has been initially measured on the basis of the remaining contractual terms of the related franchise agreements. The carrying amount of the reacquired right as at the acquisition date has been determined based on the independent appraiser valuation report which assessed the fair value of the reacquired rights. The Group amortizes the reacquired rights over the remaining contractual period of relevant franchise agreements in which the right was granted. The remaining period of the franchise contracts for the reacquired rights ranged from 1-8 years as at the date of the acquisition.

The Group was not aware of any indicator of impairment to the reacquired right as at December 31, 2022 and October 31, 2023.

The amortization charges for the Relevant Periods are included in "Administrative and other operating expenses" in the consolidated statements of profit or loss and other comprehensive income.

14 GOODWILL

	RMB'000
Balance as of January 1, 2022	–
Acquired during the year	83,336
Balance as of December 31, 2022 and 1 January 2023	83,336
Acquired during the period	3,712
Balance as of October 31, 2023	87,048

Goodwill is related to the Group's acquisition of Dongguan Xingkong, Yunnan Yanyan Trading Co., Ltd. ("Yunnan Yanyan"), Wuhan Shengke Trading Co., Ltd. ("Wuhan Shengke"), Wenzhou City Benju Trading Co., Ltd. ("Wenzhou Benju"), and Dongguan Youjia Business Management Co., Ltd ("Dongguan Youjia") ("the Acquirees") (see Note 30). The goodwill is attributed to the workforce and store networks of the Acquirees where significant synergies are expected to arise aggregately. The considerations of the acquisitions were determined at the fair value of the equity interests of the acquirees' upon the completion of acquisition based on arm's length negotiation and a valuation report issued by an independent appraiser.

Impairment test for cash-generating units (CGUs) containing goodwill

For the purpose of impairment testing, goodwill has been allocated to the following groups of CGUs.

	As at December 31, 2022	As at October 31, 2023
	RMB'000	RMB'000
Stores of Dongguan Xingkong	70,634	70,634
Stores of Yunnan Yanyan	12,551	12,551
Stores of Dongguan Youjia	–	3,712
Other CGUs	151	151
	83,336	87,048

The recoverable amount of these CGUs were based on its value in use, determined by discounting the future cash flows to be generated from the continuing operation of the CGUs, based on value-in-use calculation. The cash flow projection used in calculation was based on the financial forecasts approved by management covering a six-year period. A period greater than five years was used for these CGUs as the Group expects, based on its past experience and sector knowledge, that it takes at least six years for the acquired businesses to first go through the run-in period and then reach a stable status in terms of market share, and consequently a terminal value growth rate can be estimated for the major assets' remaining useful life within the CGUs.

The key assumptions used in the estimation of value in use as follows.

	As at December 31, 2022
	RMB'000
Dongguan Xingkong	
Pre-tax discount rate	17.0%
Terminal value growth rate	3.0%
Revenue growth rate (average of next six years)	9.7%
Yunnan Yanyan	
Pre-tax discount rate	18.8%
Terminal value growth rate	3.0%
Revenue growth rate (average of next six years)	14.8%

The discount rate used was pre-tax and reflect specific risks relating to the CGUs. Six years of cash flow were included in the discounted cash flow model. Cash flows beyond the Six-year period were extrapolated using the terminal growth rate, which did not exceed the long-term average growth rates for the business in which the CGUs operate.

The headroom calculated based on the recoverable amounts deducting the carrying amount of and goodwill allocated for the CGUs were approximated RMB137,144,000 and RMB24,365,000 for Dongguan Xingkong and Yunnan Yanyan as at December 31, 2022.

The Group performed the sensitivity analysis based on the assumption that pre-tax discount rate and revenue growth rate has been changed. Had the estimated key assumption during the forecast period been changed as below, the headroom would have decreased to the following:

	As at December 31, 2022
	RMB'000
Dongguan Xingkong	
Pre-tax discount rate increase by 5%	107,261
Revenue growth rate (average of next six years) decrease by 5%	69,101
Yunnan Yanyan	
Pre-tax discount rate increase by 5%	16,148
Revenue growth rate (average of next six years) decrease by 5%	11,347

With regards to the assessment of the value in use of the CGUs, the directors of the Group believe that reasonable possible changes in above key assumptions would not lead to the carrying value, including goodwill, of the CGUs to exceed the recoverable amount as at December 31, 2022 and October 31, 2023.

The Group was not aware of any impairment indicators to the goodwill of each CGU as at December 31, 2022 and October 31, 2023, and the Group will perform annual impairment assessment on each CGU as at December 31, 2023.

15 INVESTMENT IN JOINT VENTURES

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of investment in joint ventures	69,095	169,158	35,224	25,429
Share of accumulated (losses)/profit from operations	(17,665)	(49,969)	3,207	16,308
	51,430	119,189	38,431	41,737

The Group and third-party investors of joint ventures of the Group, provided non-cash contributions related to leasehold improvement, store equipment, furniture and fittings to the respective joint ventures.

Having considered the independent valuation report of the material joint venture and other relevant joint ventures, management considers there were no impairment indicators for the investment in joint ventures as at December 31, 2020 and 2021.

During the year ended December 31, 2022, the Group and the third-party investors of the joint ventures entered into a series of debt conversion agreements, agreeing to convert the amounts due from joint ventures into the Group and third-party investors' investment in the relevant joint venture.

During the year ended December 31, 2022 and the ten months ended October 31, 2023, the Group entered into several shareholder agreements to acquire the remaining equity interest in Dongguan Xingkong and several other joint ventures from third-party investors, upon which, these joint ventures became indirect wholly-owned subsidiaries of the Company (see Note 30).

(a) Material joint ventures

During the year ended December 31, 2020, the Group entered into a shareholder agreement with third-party investors to establish Dongguan Xingkong, which was a material joint venture, to carry out retail activities in the PRC. The following table contains the particulars of Dongguan Xingkong as at December 31, 2020 and 2021:

				Proportion of ownership interest			
Name of joint venture	**Form of business structure**	**Place of establishment and business**	**Particulars of issued and paid-up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
Dongguan Xingkong	Established	PRC	Issued capital of RMB300,000,000 and paid-up capital of RMB120,190,444	50%	–	50%	Retail of lifestyle products

Summarized financial information of Dongguan Xingkong adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	As at December 31, 2020	**As at December 31, 2021**	**As at December 31, 2022**
	RMB'000	**RMB'000**	**RMB'000**
Current assets	35,278	204,687	Not applicable
Non-current assets	458,882	644,627	Not applicable
Current liabilities	(65,688)	(68,822)	Not applicable
Non-current liabilities	(363,234)	(650,059)	Not applicable
Equity	65,238	130,433	Not applicable
Included in the above assets and liabilities:			
Cash and cash equivalents	246	1,754	Not applicable

	Year ended/ As at December 31, 2020	**Year ended/ As at December 31, 2021**	**Year ended/ As at December 31, 2022**
	RMB'000	**RMB'000**	**RMB'000**
Revenue	163,588	717,635	580,296
Net loss	(28,430)	(68,584)	(119,641)
Total comprehensive income	(28,430)	(68,584)	(119,641)
Included in the above loss:			
Depreciation and amortization	(38,223)	(196,361)	(179,932)
Reconciled to the Group's interest in Dongguan Xingkong			
Gross amount of Dongguan Xingkong's net assets	65,238	130,433	Not applicable
Group's effective interest	50%	50%	Not applicable
Group's share of Dongguan Xingkong's net assets	32,619	65,217	Not applicable

(b) Aggregate information of joint ventures that are not individually material:

	As at/ Year ended December 31, 2020	**As at/ Year ended December 31, 2021**	**As at/ Year ended December 31, 2022**	**As at/Ten months ended October 31, 2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	18,811	53,972	38,431	41,737

	As at/ Year ended December 31, 2020	As at/ Year ended December 31, 2021	As at/ Year ended December 31, 2022	As at/Ten months ended October 31, 2023
	RMB'000	RMB'000	RMB'000	RMB'000
Aggregate amounts of the Group's share of individually immaterial joint ventures' (loss)/profit from operations	(1,955)	1,988	(21,868)	11,085

16 INVESTMENT IN SUBSIDIARIES

The Company

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost	27	27	27	27

Further details of the subsidiaries of the Group are set out in Note 1(c).

17 INVENTORIES

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Merchandise	727,168	1,071,034	913,127	755,285
Low-value consumables	13,692	30,380	9,886	9,467
	740,860	1,101,414	923,013	764,752

	Year ended December 31,			Ten months ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Carrying amount of inventories sold	1,144,795	2,194,944	2,121,500	1,845,945	2,517,665
Write-down of inventories	1,396	5,388	3,922	2,011	2,562
Cost of inventories recognized in the consolidated statements of profit or loss and other comprehensive income	1,146,191	2,200,332	2,125,422	1,847,956	2,520,227

18 OTHER INVESTMENTS

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets measured at FVPL				
Wealth management products	–	293,000	–	–
Equity securities	–	10,000	10,567	9,478
	–	303,000	10,567	9,478

The Group's financial assets measured at FVPL during the Relevant Periods mainly represents wealth management products issued by various financial institutions in the PRC with a floating return which will be paid together with the principal on the maturity date. As at October 31, 2023, all wealth management products have been fully redeemed upon their maturity by the Company.

The analysis on the fair value measurement of the Group's above financial assets is disclosed in Note 28(e).

19 TRADE AND OTHER RECEIVABLES

The Group

	Note	As at December 31,			As at October 31,
		2020	2021	2022	2023
		RMB'000	RMB'000	RMB'000	RMB'000
Current					
Trade receivables *(i)*		461	30,302	179,811	180,763
Less: loss allowance	*28(a)*	–	–	–	(2,249)
Trade receivables, net of loss allowance		461	30,302	179,811	178,514
Rental deposits		4,482	7,011	11,914	28,445
Input value-added tax and other tax recoverable		55,527	60,249	63,359	87,993
Amounts due from Directors	*32(b)*	16,046	–	–	–
Prepayments to suppliers		72,292	188,632	147,199	200,645
Other receivables		6,581	31,170	48,112	38,732
Amounts due from franchisees, net *(ii)*		91,374	190,015	60,871	24,720
Amounts due from joint ventures *(ii)*	*32(b)*	47,172	231,269	–	–
Loans to franchisees *(iii)*		9,921	7,500	–	–
		303,856	746,148	511,266	559,049
Non-current					
Rental Deposits		69,338	134,895	173,805	150,235
Loans to franchisees *(iii)*		262,078	74,409	9,540	4,026
Prepayments to suppliers *(iv)*		–	168,088	138,457	136,655
		331,416	377,392	321,802	290,916
		635,272	1,123,540	833,068	849,965

Notes:

(i) As at December 31, 2022 and October 31, 2023, trade receivables amounted to RMB123,208,000 and RMB144,852,000 were due from franchisees in Indonesia, respectively.

(ii) Amounts due from franchisees and joint ventures are unsecured, interest-free and are expected to be recovered within one year.

(iii) Loans to franchisees are non-trade in nature, unsecured and interest-bearing. Substantially all loans to franchisees shall be repaid or settled prior to the [**REDACTED**].

(iv) The non-current portions of prepayments to suppliers primarily include advance payments for renovation of stores as at the end of each reporting period.

(v) All of the trade and other receivables, apart from the non-current portion, are expected to be recovered or recognized as expense within one year.

Ageing analysis

As at the end of each of the reporting period, the ageing analysis of trade receivables based on the invoice date and net of loss allowance, is as follows:

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Undue	461	30,302	179,811	157,449
Past due within 3 months	–	–	–	15,903
Past due 3 to 6 months	–	–	–	5,162
	461	30,302	179,811	178,514

Trade receivables are due within 30 to 90 days from the date of billing. Further details on the Group's credit policy are set out in Note 28(a).

The Company

Amounts due from subsidiaries as at December 31, 2020, 2021, 2022 and October 31, 2023 are non-trade in nature, unsecured, interest-free and recoverable on demand.

20 CASH AND CASH EQUIVALENTS

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand	46	99	–	–
Cash at banks	156,231	610,174	427,879	777,006
Cash equivalents *(i)*	12,047	3,405	29,061	184,382
Less: restricted bank deposits *(ii)*	(30)	(147,971)	(208,867)	(155,063)
	168,294	465,707	248,073	806,325

Notes:

(i) Cash equivalents represents cash balances placed with online payment platforms.

(ii) As at December 31, 2021, 2022 and October 31, 2023, restricted bank deposits mainly represent cash held in an escrow bank account in the PRC with designated usage for stores proceeds settlement.

(iii) As at December 31, 2020, 2021, 2022 and October 31, 2023, cash and cash equivalents situated in the PRC amounted to RMB156,231,000, RMB598,060,000, RMB411,214,000 and RMB609,256,000, respectively. Remittance of funds out of the PRC is subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(a) Reconciliation of profit/(loss) before taxation to cash generated from/(used in) operations:

		Year ended December 31,			Ten months ended October 31,	
	Note	2020	2021	2022	2022	2023
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
(Loss)/profit before taxation		(2,050,379)	(5,718,124)	(18,751)	140,616	296,470
Adjustments for:						
Depreciation of property, plant and equipment	*6(c)*	55,390	134,513	171,189	136,522	163,624
Depreciation of right-of-use assets	*6(c)*	166,037	336,310	479,505	375,155	406,965
Amortization	*6(c)*	1,513	1,831	4,374	1,300	17,837
Interest expenses	*6(a)*	49,152	91,511	103,474	84,009	80,923
Unrealized net exchange loss/(gain)		3,539	3,192	(13,851)	(21,492)	(4,014)
Share of losses/(profits) from joint ventures		16,170	32,304	81,689	71,793	(11,085)
Fair value changes of financial liabilities measured at fair value through profit or loss	*27*	1,842,514	5,356,803	(489,247)	(456,043)	10,013
Fair value changes of other investments	*5*	–	–	(567)	(303)	1,089
Interest income	*5*	(30,435)	(45,064)	(18,273)	(16,345)	(11,049)
Gain from termination of lease contracts on stores' closures	*6(c)*	–	(15,181)	(25,199)	(28,652)	(78,455)
Loss on disposals of property, plant and equipment and intangible assets	*6(c)*	2,479	25,157	31,535	25,661	61,743
Impairment loss recognized on property, plant and equipment	*6(c)*	13,626	19,715	6,102	1,311	5,911
Impairment loss recognized on right-of-use assets	*6(c)*	4,866	12,044	34,863	20,631	16,026
Impairment losses recognized/(reversed) on trade and other receivables	*6(c)*	–	13,975	7,041	5,548	(723)
Write-down of inventories	*17*	1,396	5,388	3,922	2,011	2,562
Rent concessions received	*12*	(31,993)	(16,950)	(56,404)	(34,465)	(51,978)
Changes in working capital:						
(Increase)/decrease in inventories		(264,363)	(365,942)	174,479	260,635	155,699
Increase in trade and other receivables		(158,229)	(503,075)	(255,229)	(254,599)	(38,109)
(Increase)/decrease in restricted bank deposits		–	(147,941)	(60,896)	(96,060)	53,804
Increase in trade and other payables		64,771	192,147	139,419	6,655	130,877
Cash (used in)/generated from operations		(313,946)	(587,387)	299,175	223,888	1,208,130

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Bank loans	Other borrowings	Lease liabilities	Redemption liabilities	Convertible redeemable preferred shares	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 24)	*(Note 24)*	*(Note 25)*	*(Note 27)*	*(Note 27)*	
At January 1, 2020	49,000	183,070	361,799	1,257,514	–	1,851,383
Changes from financing cash flows:						
Capital element of lease rentals paid	–	–	(121,729)	–	–	(121,729)
Interest element of lease rentals paid	–	–	(35,182)	–	–	(35,182)
Proceeds from loans and borrowings	61,843	247,947	–	–	–	309,790
Repayment of loans and borrowings	(49,000)	(183,070)	–	–	–	(232,070)
Payment of interest on loans and borrowings	(4,998)	(8,972)	–	–	–	(13,970)
Proceeds from the issuance of redemption liabilities and convertible redeemable preferred shares	–	–	–	206,486	665,655	872,141
Total changes from financing cash flows	7,845	55,905	(156,911)	206,486	665,655	778,980
Other changes:						
Interest expenses *(Note 6(a))*	4,998	8,972	35,182	–	–	49,152
Fair value changes of financial liabilities measured at fair value through profit or loss	–	–	–	1,562,401	280,113	1,842,514
Additions to lease liabilities	–	–	846,903	–	–	846,903
Rent concessions received *(Note 12)*	–	–	(31,993)	–	–	(31,993)
Exchange differences	–	–	(570)	–	–	(570)
Total other changes	4,998	8,972	849,522	1,562,401	280,113	2,706,006
At December 31, 2020	61,843	247,947	1,054,410	3,026,401	945,768	5,336,369

	Bank loans	Other borrowings	Lease liabilities	Redemption liabilities	Convertible redeemable preferred shares	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 24)	*(Note 24)*	*(Note 25)*	*(Note 27)*	*(Note 27)*	
At January 1, 2021	61,843	247,947	1,054,410	3,026,401	945,768	5,336,369
Changes from financing cash flows:						
Capital element of lease rentals paid	–	–	(279,527)	–	–	(279,527)

	Bank loans	Other borrowings	Lease liabilities	Redemption liabilities	Convertible redeemable preferred shares	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 24)	*(Note 24)*	*(Note 25)*	*(Note 27)*	*(Note 27)*	
Interest element of lease rentals paid	–	–	(73,101)	–	–	(73,101)
Proceeds from loans and borrowings	214,031	–	–	–	–	214,031
Repayment of loans and borrowings	(89,207)	(242,847)	–	–	–	(332,054)
Payment of interest on loans and borrowings	(15,667)	(2,743)	–	–	–	(18,410)
Proceeds from the issuance of convertible redeemable preferred shares	–	–	–	–	1,788,452	1,788,452
Total changes from financing cash flows	109,157	(245,590)	(352,628)	–	1,788,452	1,299,391
Other changes:						
Interest expenses *(Note 6(a))*	15,667	2,743	73,101	–	–	91,511
Fair value changes of financial liabilities measured at fair value through profit or loss	–	–	–	–	5,356,803	5,356,803
Transfer *(Note 27)*	–	–	–	(3,026,401)	3,026,401	–
Additions to lease liabilities	–	–	1,171,344	–	–	1,171,344
Reassessment of lease liabilities	–	–	(216,423)	–	–	(216,423)
Rent concessions received *(Note 12)*	–	–	(16,950)	–	–	(16,950)
Exchange differences	–	(5,100)	(735)	–	–	(5,835)
Total other changes	15,667	(2,357)	1,010,337	(3,026,401)	8,383,204	6,380,450
At December 31, 2021	186,667	–	1,712,119	–	11,117,424	13,016,210

	Bank loans	Other borrowings	Lease liabilities	Redemption liabilities	Convertible redeemable preferred shares	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 24)	*(Note 24)*	*(Note 25)*	*(Note 27)*	*(Note 27)*	
At January 1, 2022	186,667	–	1,712,119	–	11,117,424	13,016,210
Changes from financing cash flows:						
Capital element of lease rentals paid	–	–	(346,220)	–	–	(346,220)
Interest element of lease rentals paid	–	–	(91,099)	–	–	(91,099)
Proceeds from loans and borrowings	198,935	–	–	–	–	198,935
Repayment of loans and borrowings	(229,279)	–	–	–	–	(229,279)

	Bank loans	Other borrowings	Lease liabilities	Redemption liabilities	Convertible redeemable preferred shares	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 24)	*(Note 24)*	*(Note 25)*	*(Note 27)*	*(Note 27)*	
Payment of interest on loans and borrowings	(12,375)	–	–	–	–	(12,375)
Total changes from financing cash flows	(42,719)	–	(437,319)	–	–	(480,038)
Other changes:						
Interest expenses *(Note 6(a))*	12,375	–	91,099	–	–	103,474
Fair value changes of financial liabilities measured at fair value through profit or loss	–	–	–	–	(489,247)	(489,247)
Additions to lease liabilities	–	–	1,084,907	–	–	1,084,907
Reassessment of lease liabilities	–	–	(219,710)	–	–	(219,710)
Rent concessions received *(Note 12)*	–	–	(56,404)	–	–	(56,404)
Exchange differences	–	–	115	–	–	115
Total other changes	12,375	–	900,007	–	(489,247)	423,135
At December 31, 2022	156,323	–	2,174,807	–	10,628,177	12,959,307

	Bank loans	Other borrowings	Lease liabilities	Redemption liabilities	Convertible redeemable preferred shares	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 24)	*(Note 24)*	*(Note 25)*	*(Note 27)*	*(Note 27)*	
At January 1, 2023	156,323	–	2,174,807	–	10,628,177	12,959,307
Changes from financing cash flows:						
Capital element of lease rentals paid	–	–	(311,093)	–	–	(311,093)
Interest element of lease rentals paid	–	–	(73,975)	–	–	(73,975)
Proceeds from loans and borrowings	135,615	–	–	–	–	135,615
Repayment of loans and borrowings	(156,323)	–	–	–	–	(156,323)
Payment of interest on loans and borrowings	(6,948)	–	–	–	–	(6,948)
Total changes from financing cash flows	(27,656)	–	(385,068)	–	–	(412,724)
Other changes:						
Interest expenses *(Note 6(a))*	6,948	–	73,975	–	–	80,923

	Bank loans	Other borrowings	Lease liabilities	Redemption liabilities	Convertible redeemable preferred shares	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 24)	*(Note 24)*	*(Note 25)*	*(Note 27)*	*(Note 27)*	
Fair value changes of financial liabilities measured at fair value through profit or loss	–	–	–	–	10,013	10,013
Additions to lease liabilities	–	–	399,832	–	–	399,832
Reassessment of lease liabilities	–	–	(531,949)	–	–	(531,949)
Rent concessions received *(Note 12)*	–	–	(51,978)	–	–	(51,978)
Total other changes	6,948	–	(110,120)	–	10,013	(93,159)
At October 31, 2023	135,615	–	1,679,619	–	10,638,190	12,453,424

(Unaudited)	Bank loans	Other borrowings	Lease liabilities	Redemption liabilities	Convertible redeemable preferred shares	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 24)	*(Note 24)*	*(Note 25)*	*(Note 27)*	*(Note 27)*	
At January 1, 2022	186,667	–	1,712,119	–	11,117,424	13,016,210
Changes from financing cash flows:						
Capital element of lease rentals paid	–	–	(265,669)	–	–	(265,669)
Interest element of lease rentals paid	–	–	(73,170)	–	–	(73,170)
Proceeds from loans and borrowings	198,935	–	–	–	–	198,935
Repayment of loans and borrowings	(145,919)	–	–	–	–	(145,919)
Payment of interest on loans and borrowings	(10,839)	–	–	–	–	(10,839)
Total changes from financing cash flows	42,177	–	(338,839)	–	–	(296,662)
Other changes:						
Interest expenses *(Note 6(a))*	10,839	–	73,170	–	–	84,009
Fair value changes of financial liabilities measured at fair value through profit or loss	–	–	–	–	(456,043)	(456,043)
Additions to lease liabilities	–	–	918,464	–	–	918,464
Reassessment of lease liabilities	–	–	(124,419)	–	–	(124,419)
Rent concessions received *(Note 12)*	–	–	(34,465)	–	–	(34,465)
Exchange differences	–	–	(55)	–	–	(55)
Total other changes	10,839	–	832,695	–	(456,043)	387,491

(Unaudited)	Bank loans	Other borrowings	Lease liabilities	Redemption liabilities	Convertible redeemable preferred shares	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 24)	*(Note 24)*	*(Note 25)*	*(Note 27)*	*(Note 27)*	
At October 31, 2022	239,683	–	2,205,975	–	10,661,381	13,107,039

(c) Total cash outflows for leases

Amounts included in the consolidated statements of cash flows for leases comprise the following:

	Year ended December 31,			Ten months ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Within operating cash flows	(11,433)	(22,918)	(34,213)	(29,694)	(77,712)
Within financing cash flows	(156,911)	(352,628)	(437,319)	(338,839)	(385,068)
Total cash outflow for leases	(168,344)	(375,546)	(471,532)	(368,533)	(462,780)

21 TRADE AND OTHER PAYABLES

The Group

	Note	As at December 31,			As at October 31,
		2020	2021	2022	2023
		RMB'000	RMB'000	RMB'000	RMB'000
Trade payables		240,707	440,535	379,725	424,092
Staff costs payables		45,757	90,963	88,781	73,980
Other payables and accrued charges		52,779	213,901	167,512	159,942
Payable to an investor *(Note (a))*		79,016	–	–	–
Provisions		1,045	1,045	5,879	6,558
Amounts due to franchisees		52,917	48,095	49,838	63,240
Amounts due to joint ventures		8,881	1,477	4,838	24,806
Consideration payable for acquisition of non-controlling interests	*26(f)*	–	–	68,300	–
Consideration payable for acquisition of subsidiaries	*30*	–	–	3,900	–
Value-added tax payables		5,078	12,320	5,719	4,651
		486,180	808,336	774,492	757,269

The ageing analysis of the trade payables based on the invoice date is as follows:

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Unbilled or within 3 months	235,325	439,399	362,249	409,526
3 to 6 months	2,789	82	11,972	7,375
6 to 12 months	1,712	375	3,859	2,566

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Over 12 months	881	679	1,645	4,625
	240,707	440,535	379,725	424,092

The Company

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Payable to an investor *(Note (a))*	79,016	–	–	–
Accrued [**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Others	4	–	–	–
	79,020	6,242	13,752	20,336

Notes:

(a) In November 2020, the Company received RMB79,016,000 from an investor, which was subsequently used to subscribe the Company's Convertible Redeemable Preferred Shares upon its issuance in July 2021.

(b) All the other payables of the Company are expected to be settled within one year.

22 CONTRACT LIABILITIES

Contract liabilities represented receipts in advance from customers relating to the Group's premium membership program launched in April 2023:

	As at October 31,
	2023
	RMB'000
Balance at January 1, 2023	–
Net increase in contract liabilities	59,326
Decrease in contract liabilities as a result of recognizing revenue during the period	(16,238)
Balance at October 31, 2023	43,088

The receipts in advance are expected to be recognized as revenue within one year.

23 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represents:

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	(153)	1,591	6,089	11,027
Provision for income tax for the year/period	1,868	6,812	8,839	38,104
Income tax paid	(124)	(2,314)	(3,901)	(6,391)
At the end of the year/period	1,591	6,089	11,027	42,740
Reconciliation to the consolidated statements of financial position:				
Income tax payable	1,628	6,089	11,027	42,740
Income tax recoverable	(37)	–	–	–
	1,591	6,089	11,027	42,740

(b) Deferred tax assets and liabilities recognized:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets and liabilities recognized in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

Deferred tax arising from:	Impairment losses	Timing difference in relation to lease arrangements	Provisions	Unused tax losses	Required rights	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2020	6,362	(382)	260	26,586	–	360	33,186
Credited to profit or loss	4,972	7,684	–	22,068	–	316	35,040
At December 31, 2020 and January 1, 2021	11,334	7,302	260	48,654	–	676	68,226
Credited to profit or loss	2,805	1,232	–	39,440	–	108	43,585
At December 31, 2021 and January 1, 2022	14,139	8,534	260	88,094	–	784	111,811
Credited/(charged) to profit or loss	4,309	15,175	1,209	68,974	712	(925)	89,454
Arising from acquisition *(Note 30)*	–	–	–	–	(17,625)	–	(17,625)
At December 31, 2022 and January 1, 2023	18,448	23,709	1,469	157,068	(16,913)	(141)	183,640
(Charged)/credited to profit or loss	(7,552)	1,216	170	(47,811)	4,180	857	(48,940)
At October 31, 2023	10,896	24,925	1,639	109,257	(12,733)	716	134,700

(ii) Reconciliation to the consolidated statements of financial position

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Net deferred tax asset recognized in the consolidated statements of financial position	68,226	111,811	200,694	147,432
Net deferred tax liability recognized in the consolidated statements of financial position	–	–	(17,054)	(12,732)
	68,226	111,811	183,640	134,700

(c) Deferred tax assets not recognized:

In accordance with the accounting policy set out in Note 2(t), the Group has not recognized deferred tax assets in respect of cumulative tax losses of certain subsidiaries located in the PRC, Hong Kong and Indonesia as it is not probable that future taxable profits against which the losses or temporary differences can be utilized will be available in the relevant tax jurisdiction and entity.

The following table presents the Group's unrecognized tax losses and the expiration information at the reporting dates:

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
2024	4,630	4,630	4,630	4,630
2025	2,392	2,392	2,392	2,392
2026	–	47,594	47,594	7,271
2027	–	–	18,613	2,351
2028	–	–	–	4,640
No expiry date	10,633	19,403	49,582	51,640
Total	17,655	74,019	122,811	72,924

(d) Deferred tax liabilities not recognized:

Upon completion of the Reorganization, the Group did not recognize deferred tax liabilities in respect of distributable profits of the Group's subsidiaries in the PRC as at December 31, 2021, 2022 and October 31, 2023. As the Group controls the timing of the reversal of temporary differences associated with undistributed profits of its subsidiaries and it has been determined that it is probable that the undistributed profits earned by the Group's subsidiaries in the PRC will not be distributed in the foreseeable future, therefore no deferred tax liabilities arisen from above mentioned undistributed profits as at December 31, 2021, 2022 and October 31, 2023. As at December 31, 2021, 2022 and October 31, 2023, the Group did not recognize deferred tax liabilities in respect of distributable profits amounted to RMB nil, RMB6,860,000 and RMB138,704,000 of the Group's subsidiaries in the PRC.

24 LOANS AND BORROWINGS

The Group

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Unsecured loans				
– Bank loans *(Note (a))*	61,843	186,667	156,323	135,615
– Other borrowings *(Notes (a) and (b))*	247,947	–	–	–
	309,790	186,667	156,323	135,615

At December 31, 2020, 2021, 2022 and October 31, 2023, the loans and borrowings were repayable as follows:

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	305,346	186,667	156,323	135,615
After 1 year but within 2 years	4,444	–	–	–
	309,790	186,667	156,323	135,615

The Company

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Other borrowings *(Notes (a) and (b))*	247,947	–	–	–

Notes:

(a) All the interest-bearing loans and borrowings are carried at amortized cost. None of the non-current interest-bearing loans and borrowings are expected to be settled within one year.

(b) Other borrowings are unsecured, interest-bearing and repayable within one year.

(c) Certain banking facilities of the Group are subject to financial covenants. The Group regularly monitors its compliance with these covenants and was adherent to the term loans' repayment schedule and does not consider it to be probable that the bank will exercise its discretion to demand repayment so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in Note 28(b).

25 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of each reporting period:

	As at December 31, 2020		As at December 31, 2021		As at December 31, 2022		As at October 31, 2023	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	165,325	210,590	312,590	389,717	470,195	549,041	425,290	495,400
After 1 year but within 2 years	208,369	244,094	330,403	390,957	432,733	515,519	400,747	450,745
After 2 years but within 5 years	467,784	526,397	775,078	870,715	986,522	1,086,720	724,265	785,189
After 5 years	212,932	228,335	294,048	314,560	285,357	299,495	129,317	135,013
	889,085	998,826	1,399,529	1,576,232	1,704,612	1,901,734	1,254,329	1,370,947
	1,054,410	1,209,416	1,712,119	1,965,949	2,174,807	2,450,775	1,679,619	1,866,347
Less: total future interest expenses		(155,006)		(253,830)		(275,968)		(186,728)
Present value of lease liabilities		1,054,410		1,712,119		2,174,807		1,679,619

26 CAPITAL RESERVES, DIVIDENDS AND NON-CONTROLLING INTERESTS

(a) Capital and capital reserve

For the purpose of this report, capital of the Group as at January 1 and December 31, 2020 represented the aggregate amount of the issued capital of Guangdong Kuaike and the Company. Upon completion of the Reorganization, capital of the Group as at December 31, 2021, 2022 and October 31, 2023 represented the issued capital of the Company. The excess of capital contributions made by equity shareholders over the nominal value of the registered capital and paid-in capital were recognized as capital reserve in the Group's consolidated statements of changes in equity.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on March 29, 2019 with authorized capital of US$50,000 divided into 500,000,000 shares with a par value of US$0.0001 each. On April 8, 2020, 11,408,430 ordinary shares have been issued, equivalent to RMB7,000.

Pursuant to a restructuring agreement entered into by Guangdong Kuaike, the Company and the shareholders of Guangdong Kuaike, a capital reduction of Guangdong Kuaike was implemented for the purpose of restoring and aligning shareholders' previous shareholding interests in Guangdong Kuaike to the Company. During the year ended December 31, 2021, as part of the Reorganization, (i) there was a reduction of Guangdong Kuaike's registered capital, with the reduction amount being applied for settlement of non-redeemable preferred shares issued by the Company; and (ii) the Company acquired 100% equity interests in Guangdong Kuaike through a wholly-owned subsidiary at a total cash consideration of RMB9,849,000 to shareholder of Guangdong Kuaike (Note 1(b)), representing the amount of registered capital of Guangdong Kuaike on June 29, 2021.

(b) Movements in components of equity

Details of the changes in the Company's individual components of equity are set out below:

The Company

	Share capital	Capital reserve	Exchange reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2020	–	–	–	–	–
Changes in equity for the year ended December 31, 2020:					
Loss for the year	–	–	–	(291,302)	(291,302)
Other comprehensive income	–	–	(51,709)	–	(51,709)
Total comprehensive income	–	–	(51,709)	(291,302)	(343,011)
Issuance of ordinary shares	7	–	–	–	7
At December 31, 2020 and January 1, 2021	7	–	(51,709)	(291,302)	(343,004)
Changes in equity for the year ended December 31, 2021:					
Loss for the year	–	–	–	(7,520,196)	(7,520,196)
Other comprehensive income	–	–	102,537	–	102,537
Total comprehensive income	–	–	102,537	(7,520,196)	(7,417,659)
Issuance of ordinary shares	*	3,450	–	–	3,450
At December 31, 2021 and January 1, 2022	7	3,450	50,828	(7,811,498)	(7,757,213)
Changes in equity for the year ended December 31, 2022:					
Profit for the year	–	–	–	470,564	470,564
Other comprehensive income	–	–	310,551	–	310,551
Total comprehensive income	–	–	310,551	470,564	781,115
At December 31, 2022 and January 1, 2023	7	3,450	361,379	(7,340,934)	(6,976,098)
Changes in equity for the ten months ended October 31, 2023:					
Profit for the period	–	–	–	(23,820)	(23,820)
Other comprehensive income	–	–	112,118	–	112,118
Total comprehensive income	–	–	112,118	(23,820)	88,298
At October 31, 2023	7	3,450	473,497	(7,364,754)	(6,887,800)

* Less than RMB500

(c) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policies in Note 2(w).

(d) Dividends

No dividend was declared or paid by the Company during the Relevant Periods.

Dividends in respect of the year ended December 31, 2020 were declared and paid by Xinjiang Qianyufei Commercial Management Co., Ltd. and Guizhou Xianke Goods Partnership, the subsidiaries of the Group, amounting to RMB205,000 and RMB1,758,000, among which RMB101,000 and RMB879,000 were attributable to the non-controlling shareholders of these subsidiaries.

(e) Capital contribution from non-controlling interests

Capital contribution from non-controlling interests represents cash and non-cash contributions for leasehold improvements, store equipment, and furniture and fittings by non-controlling shareholders.

(f) Acquisition of non-controlling interests

During the year ended December 31, 2022 and the ten months ended October 31, 2023, the Group acquired remaining equity interests from third-party shareholders of certain non-wholly owned subsidiaries for total considerations of RMB287,837,000 and RMB69,132,000, respectively. According to the relevant agreements, the considerations will be settled in cash amounted to RMB109,130,000 and RMB37,283,000 and offset by the Group's balances of amounts due from franchisees of RMB178,707,000 and RMB31,849,000, respectively. Upon the completion of the acquisitions, these entities became indirect wholly-owned subsidiaries of the Company.

(g) Capital management

The Group's primary objective when managing its capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The directors of the Company review its capital structure by considering the cost and the risks associates with each class of capital. Based on recommendations of the directors of the Company, the Group will continue to balance its overall capital structure through issuance of shares and obtaining and renewing existing debt financing.

27 FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Redemption liabilities	3,026,401	–	–	–
Convertible redeemable preferred shares	945,768	11,117,424	10,628,177	10,638,190
	3,972,169	11,117,424	10,628,177	10,638,190

The Group has completed several rounds of financing by issuing shares as shown in the below table:

Year	Issued by	Series of Financing	Number of shares issued	Type of shares issued	Consideration received
					RMB'000
2017	Guangdong Kuaike	series A	2,170,971	Ordinary shares with preferential rights	46,500
2018	Guangdong Kuaike	series B	3,586,145	Ordinary shares with preferential rights	70,000
2019	Guangdong Kuaike	series C	4,134,164	Ordinary shares with preferential rights	267,892
2019	Guangdong Kuaike	series D	3,180,092	Ordinary shares with preferential rights	300,830
2020	Guangdong Kuaike	series D	788,108	Ordinary shares with preferential rights	116,486
2020	Guangdong Kuaike	series E	506,062	Ordinary shares with preferential rights	90,000

Year	Issued by	Series of Financing	Number of shares issued	Type of shares issued	Consideration received
					RMB'000
2020.	the Company	series D	208,545	Convertible redeemable preferred shares	34,885
2020.	the Company	series E	3,546,762	Convertible redeemable preferred shares	630,770
2021.	the Company	series F	3,355,089	Convertible redeemable preferred shares	1,788,452
			21,475,938		3,345,815

* As part of the Reorganization as discussed in Note 1, the investors exchanged the ordinary shares and the preferential rights they held in Guangdong Kuaike, with the Group for the convertible redeemable preferred shares issued by the Company. The exchange was achieved by a reduction of capital of Guangdong Kuaike, acquisition of all voting rights and shareholders' right in Guangdong Kuaike by the Company, and an issuance of convertible redeemable preferred shares as the result of the investors exercising the warrants issued by the Company. In substance, the Company and the investors entered into a swap to exchange the shares issued by Guangdong Kuaike with preferential rights with convertible redeemable preferred shares issued by the Company. This exchange was completed on July 27, 2021.

The contractual rights and obligations in respect of the convertible redeemable preferred shares, including the redemption rights exercisable upon occurrence contingent events, are substantially the same as those of the shares and preferential rights issued by Guangdong Kuaike. The overall effect of the swap as stated above would have minimal impact on net cash inflows to/outflows from the Group.

The key terms of the convertible redeemable preferred shares are summarized as follows:

(a) Conversion feature

Each preferred share shall automatically be converted into ordinary shares, at the then applicable preferred share conversion price upon the closing of a qualified [**REDACTED**]. The initial conversion price will be the applicable preferred share issue price (i.e., a 1-to-1 initial conversion ratio), which will be subject to adjustments to reflect stock dividends, stock splits and other events.

(b) Redemption feature

The preferred shares are redeemable by the holders if the Company fails to complete a qualified [**REDACTED**] prior to a specified no-[**REDACTED**] redemption date or upon an occurrence of some specified contingent events. The redemption price shall equal the following:

For each Series A/B/C/D/E/F preferred shares redeemed, the redemption price shall be equal to the higher of: (i) one hundred percent (100%) of the Series A/B/C/D/E/F issue price (as adjusted for any share subdivisions, share dividends, combinations, recapitalizations and similar transactions) and a simple interest rate of ten percent (10%) calculated from the Series A/B/C/D/E/F issue date till the date of full payment of the redemption price (calculated on a pro rata basis in case of a partial year); or (ii) such Series A/B/C/D/E/F Redeeming shareholder's pro rata share of the net assets, in each case, plus all declared but unpaid dividends on each such redeeming Series A/B/C/D/E/F preferred share.

(c) Liquidation preference

In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary or any deemed liquidation event as defined in the agreement between the Company and the investors, the fair market value of all assets and funds of the Company legally available for distribution to the shareholders (after satisfaction of all creditors' claims and claims that may be preferred by applicable Law) (collectively, the "Residual Assets") shall be distributed to the shareholders as follows:

For each Series B/C/D/E/F shareholder, the amount equal to the higher of: (i) pro rata share of Residual Assets; or (ii) one hundred percent (100%) of the Series B/C/D/E/F issue price (as adjusted for any share subdivisions, share dividends, combinations, recapitalizations and similar transactions) and a simple interest rate of ten percent (10%) calculated from the Series B/C/D/E/F issue date till the date of full payment of the Redemption Price (calculated on a pro rata basis in case of a partial year), plus all declared but unpaid dividends.

For each Series A shareholder, the amount equal to one hundred percent (100%) of the Series A issue price (as adjusted for any share subdivisions, share dividends, combinations, recapitalizations and similar transactions).

The Group has designated the ordinary shares with preferential rights and convertible redeemable preferred shares described above as financial liabilities at fair value through profit or loss. See Note 2(q) for the relevant accounting policy.

The redemption features of the convertible redeemable preferred shares issued by the Company after the Reorganization would be terminated immediately after the consummation of a qualified [**REDACTED**]. Upon the termination of the Group's redemption obligations, the redemption liabilities or the financial liabilities arising from the convertible redeemable preferred shares would be reclassified to equity.

The key assumptions used in the fair value measurement are set out as below:

	As at December 31,			As at October 31,
	2020	**2021**	**2022**	**2023**
Risk-free rate	2.8%	2.4%	2.3%	2.2%
Expected volatility	46.4%	48.4%	42.1%	40.6%

The movements of carrying amount of redemption liabilities and convertible redeemable preferred shares are set out as below:

	As at December 31,			As at October 31,
	2020	**2021**	**2022**	**2023**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At the beginning of the year/period	1,257,514	3,972,169	11,117,424	10,628,177
Addition	872,141	1,788,452	–	–
Fair value changes	1,842,514	5,356,803	(489,247)	10,013
At the end of the year/period	3,972,169	11,117,424	10,628,177	10,638,190

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables.

The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks, financial institutions, Alipay and WeChat Pay with high credit rating and no past due history, for which the Group considers having low credit risk.

Trade receivables

The Group's exposure to credit risk arising from trade receivables is influenced mainly by the individual characteristics of each customer and the country in which the customers operate rather than the industry in which the customers operate. The Group has concentration of credit risk whereby 69% and 76% of the total trade receivables was due from one customer in Indonesia as at December 31, 2022 and October 31, 2023.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

Trade receivables are due within 90 days from the date of billing. Debtors with balances that are more than 90 days past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group classifies its trade receivables based on geographic regions, due to different loss patterns experienced for sales to customers in domestic and overseas markets.

Overseas markets

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Current (not past due)	–	–	123,530	144,852
	–	–	123,530	144,852

Given that the Group has not experienced any significant credit losses for trade receivables regarding customers in overseas markets in the past, management consider the ECL rate to be insignificant and close to zero.

Domestic markets

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Current (not past due)	461	30,302	56,281	13,009
1 – 90 days past due	–	–	–	16,645
91 – 270 days past due	–	–	–	6,257
	461	30,302	56,281	35,911

Given that the Group had not experienced any significant credit losses for trade receivables regarding customers in domestic markets prior to 2023, management consider the ECL rate for December 31, 2020, 2021 and 2022 to be insignificant and close to zero.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables regarding to customers in domestic markets as at October 31, 2023:

	As at October 31, 2023			
	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
	%	RMB'000	RMB'000	RMB'000
Domestic				
Current (not past due)	3.2%	13,009	(412)	12,597
1 – 90 days past due	4.5%	16,645	(742)	15,903
91 – 270 days past due	17.5%	6,257	(1,095)	5,162
At October 31, 2023		35,911	(2,249)	33,662

Expected loss rates for domestic trade receivables are based on past loss experience and with reference to the practices of comparable companies with similar customer mix in similar market. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The loss allowances for trade receivables as at December 31, 2020, 2021, 2022 and October 31, 2023 reconcile with the opening loss allowances as follows:

	Overseas	Domestic	Total
	RMB'000	RMB'000	RMB'000
At January 1, 2020, December 31, 2020, 2021 and 2022	–	–	–
Impairment losses for the period	–	2,249	2,249
At October 31, 2023	–	2,249	2,249

Other receivables

The Group's other receivables mainly include rental deposits and amounts due from franchisees. For rental deposits, the Group has taken into account the historical experience and forward-looking information, as appropriate and has assessed that rental deposit have not had a significant increase in credit risk since initial recognition and risk of default is insignificant, and therefore, the ECL rate is considered to be insignificant and close to zero.

For the amounts due from franchisees, the Group considers the probability of default upon initial recognition and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It also considers available reasonable and supportive forwarding-looking information.

Over the term of the amounts due from franchisees, the Group accounts for its credit risk by appropriately providing for ECL on a timely basis. In calculating the ECL rates, the Group considers historical loss rates and adjusts for forward-looking macroeconomic data.

The loss allowances for amounts due from franchisees as at December 31, 2020, 2021, 2022 and October 31, 2023 reconcile with the opening loss allowances as follows:

	RMB'000
At January 1, 2020, December 31, 2020 and January 1, 2021	**–**
Impairment losses for the year	13,975
At December 31, 2021 and January 1, 2022	13,975
Write-off for the year	(13,975)
Impairment losses for the year	7,041
At December 31, 2022 and January 1, 2023	7,041
Reversal for the period	(2,972)
At October 31, 2023	4,069

The Group does not provide any guarantees which would expose the Group to credit risk.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the management and directors when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that the Group maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities as at December 31, 2020, 2021, 2022 and October 31, 2023 of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	As at December 31, 2020					
	Contractual undiscounted cash outflow					
	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	486,180	–	–	–	486,180	486,180
Loans and borrowings	307,914	4,487	–	–	312,401	309,790
Lease liabilities	210,590	244,094	526,397	228,335	1,209,416	1,054,410
	1,004,684	248,581	526,397	228,335	2,007,997	1,850,380

	As at December 31, 2021					
	Contractual undiscounted cash outflow					
	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	808,336	–	–	–	808,336	808,336
Loans and borrowings	186,667	–	–	–	186,667	186,667
Lease liabilities	389,717	390,957	870,715	314,560	1,965,949	1,712,119
	1,384,720	390,957	870,715	314,560	2,960,952	2,707,122

	As at December 31, 2022					
	Contractual undiscounted cash outflow					
	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	774,492	–	–	–	774,492	774,492
Loans and borrowings	156,323	–	–	–	156,323	156,323
Lease liabilities	549,041	515,519	1,086,720	299,495	2,450,775	2,174,807
	1,479,856	515,519	1,086,720	299,495	3,381,590	3,105,622

	As at October 31, 2023					
	Contractual undiscounted cash outflow					
	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	757,269	–	–	–	757,269	757,269
Loans and borrowings	135,615	–	–	–	135,615	135,615
Lease liabilities	495,400	450,745	785,189	135,013	1,866,347	1,679,619
	1,388,284	450,745	785,189	135,013	2,759,231	2,572,503

In addition to the above, the Group was also exposed to liquidity risk arising from the financial liabilities measured at fair value through profit or loss as at December 31, 2020, 2021, 2022 and October 31, 2023, which are further detailed in Note 27.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from its loans and borrowings. Since the Group's loans and borrowings are all fixed-rate liabilities, the Group is not exposed to significant cash flow interest risk during the Relevant Periods.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	As at December 31,						As at October 31,	
	2020		2021		2022		2023	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Fixed rate borrowings:								
Lease liabilities	4.75% - 4.90%	1,054,410	4.75% - 4.90%	1,712,119	4.75% - 4.90%	2,174,807	4.75% - 4.90%	1,679,619
Other borrowings	8.00%	247,947	–	–	–	–	–	–
Bank loans	4.53% - 7.50%	61,843	4.53% - 7.50%	186,667	4.20% - 6.50%	156,323	4.80% - 6.50%	135,615
Total borrowings		1,364,200		1,898,786		2,331,130		1,815,234

(d) Currency risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Group entities functional currency. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary.

The Group operates mainly in the PRC with most of their transactions settled in RMB. Management considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of the Group denominated in currencies other than the respective functional currencies of the Group's entities.

(e) Fair value measurement

(i) Financial liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level in which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

The following table presents the Group's financial liabilities that are measured at fair value at the end of each reporting dates:

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Level 3				
Financial assets at FVPL				
– Wealth management products	–	293,000	–	–
– Equity securities	–	10,000	10,567	9,478
Financial liabilities at FVPL				
– Redemption liabilities	(3,026,401)	–	–	–
– Convertible redeemable preferred shares	(945,768)	(11,117,424)	(10,628,177)	(10,638,190)

Information about Level 3 fair value measurements

Wealth management products

The fair value of the wealth management product issued by financial institutions is determined by discounting the cash flow associated with the product which is based on the expected rate of return in the product manual. The expected rate of return is not guaranteed and depends on the market price of underlying financial instruments, including debentures, monetary funds and other financial assets. As at December 31, 2021, it is estimated that with all other variables held constant, an increase/decrease in fair value of wealth management products by 5% would have increased/decreased the Group's profit for the year of RMB4,292,000.

The valuation requires the directors to make estimates about the expected future cash flows including expected redemption price and/or expected rate of return on maturity of the wealth management product. The directors believe that the estimated fair values resulting from the valuation techniques are reasonable, and that they were the most appropriate values at the end of the reporting period.

Equity securities

Equity securities whose fair value is classified in Level 3 mainly represent the Group's investments in an entity. The fair value of the entity is mainly estimated based on the mean value of the entity's actual or forecast net profit, which is a significant unobservable input, and price-to-earnings ratio of comparable entities in the market. As at December 31, 2020, 2021, 2022 and October 31, 2023, it is estimated that with all other variables held constant, an increase/decrease in fair value of equity securities by 5% would have increased/decreased the Group's profit for the year/period by nil, RMB386,000, RMB396,000 and RMB355,000.

Redemption liabilities and convertible redeemable preferred shares

The Group adopts an option pricing allocation model and equity allocation model when measuring the redemption liabilities and convertible redeemable preferred shares. The fair value of such financial liabilities at FVPL is affected by changes in expected volatility and risk-free rate, which are the significant unobservable inputs in the fair value measurement.

If the Group's expected volatility applied in the valuation had been 1% lower or higher than management's estimation as at December 31, 2020, 2021, 2022 and October 31, 2023, the fair values of the financial liabilities at FVPL would have increased/(decreased) by the amounts listed in table below:

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Expected volatility increase 1%	377	1,484	2,109	955
Expected volatility decrease 1%	(444)	(1,602)	(2,159)	(947)

If the Group's risk-free rate applied in the valuation had been 1% higher or lower than management's estimation as at December 31, 2020, 2021, 2022 and October 31, 2023, the fair values of the financial liabilities at FVPL would have (decreased)/increased by the amounts listed in table below:

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Risk-free rate decrease 1%	5,767	9,251	6,483	2,111
Risk-free rate increase 1%	(5,521)	(8,750)	(6,146)	(2,019)

Key assumptions used in the fair value measurement and the movements in financial liabilities at FVPL during the Relevant Periods are disclosed in Note 27.

Transfers among the fair value hierarchy

During the Relevant Periods, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortized cost are not materially different from their fair values at December 31, 2020, 2021, 2022 and October 31, 2023.

29 CAPITAL COMMITMENT

Capital commitments outstanding at the end of each reporting period not provided for in the Historical Financial Information were as follows:

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for leasehold improvements	18,254	16,850	13,339	7,784
Capital investment commitment	5,000	–	–	–
	23,254	16,850	13,339	7,784

30 ACQUISITIONS

(a) Acquisition during the year ended December 31, 2022

During the year ended December 31, 2022, the Group acquired additional 50% equity interests in its joint ventures – Dongguan Xingkong, Yunnan Yanyan, Wuhan Shengke and Wenzhou Benju from third-party franchisees at a total consideration of RMB263,098,000. According to the relevant agreements, the considerations will be settled in cash and offset by the amounts due from and loans to franchisees. Following the completion of the acquisition, the results of the acquirees' operations were included in the Group's consolidated financial statements.

The following table summarizes the consideration transferred to acquire the acquirees in 2022, and the amounts of identified assets acquired and liabilities assumed at the acquisition date:

		As at acquisition date
	Note	RMB'000
Fair value of consideration transferred		
Cash consideration paid		144,380
Consideration payable *(i)*	*21*	3,900
Amounts due from franchisees, net		96,178
Loans to franchisees		18,640
		263,098

	Note	As at acquisition date RMB'000
Fair value of previously held investment *(ii)*		126,888
		389,986

Notes:

(i) The Consideration payable have been paid by the Group during the ten months ended October 31, 2023.

(ii) The Group previously held 50% of equity interests on Dongguan Xingkong, Yunnan Yanyan, Wuhan Shengke and Wenzhou Benju. The Group derecognized the fair value of its previously held investments which are approximate to its carry amounts.

	Note	As at acquisition date RMB'000
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents		629
Property, plant and equipment	*11*	191,936
Reacquired rights	*13*	70,500
Right-of-use assets	*12*	504,873
Trade and other receivables		249,627
Trade and other payables		(141,384)
Lease liabilities		(551,906)
Deferred tax liability	*23(b)*	(17,625)
Total identifiable net assets at fair value		306,650
Goodwill		
Fair value of consideration transferred		389,986
Less: Fair value of net assets acquired by the Group		(306,650)
Goodwill		83,336

For the year ended December 31, 2022, Dongguan Xingkong, Yunnan Yanyan, Wuhan Shengke and Wenzhou Benju contributed revenue of RMB72,350,000, and loss of RMB71,513,000 to the Group's results for the year ended December 31, 2022. If the acquisition had occurred on January 1, 2022, management estimates that Dongguan Xingkong, Yunnan Yanyan, Wuhan Shengke and Wenzhou Benju would have contributed revenue of RMB383,380,000 and loss of RMB229,531,000 to the Group's results for the year ended December 31, 2022.

The goodwill is not expected to be deductible for tax purposes.

(b) Acquisition during the ten months ended October 31, 2023

During the ten months ended October 31, 2023, the Group acquired an additional 50% equity interest in its joint venture – Dongguan Youjia, from a third-party franchisee at a total consideration of RMB11,756,000. According to the relevant agreement, the consideration will be settled in cash and offset by the amounts due from the franchisee. Following the completion of the acquisition, the results of Dongguan Youjia's operations were included in the Group's consolidated financial statements.

The following table summarizes the consideration transferred to acquire Dongguan Youjia, and the amounts of identified assets acquired and liabilities assumed at the acquisition date:

	As at acquisition date
	RMB'000
Fair value of consideration transferred	
Cash consideration paid	5,000
Amounts due from franchisee, net	6,756
	11,756
Fair value of previously held investment *(i)*	8,044
	19,800

Note:

(i) The Group previously held 50% of equity interest on Dongguan Youjia and derecognized the fair value of its previously held investment which is approximate to its carry amounts.

	Note	As at acquisition date RMB'000
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents		87
Property, plant and equipment	*11*	4,962
Right-of-use assets	*12*	14,085
Trade and other receivables		53,103
Trade and other payables		(42,092)
Lease liabilities		(14,057)
Total identifiable net assets at fair value		16,088
Goodwill		
Fair value of consideration transferred		19,800
Less: Fair value of net assets acquired by the Group		(16,088)
Goodwill		3,712

For the ten months ended October 31, 2023, Dongguan Youjia contributed revenue of RMB43,328,000 and profit of RMB850,000 to the Group's results for the ten months ended October 31, 2023. If the acquisition had occurred on January 1, 2023, management estimates that Dongguan Youjia would have contributed revenue of RMB56,654,000 and profit of RMB1,844,000 to the Group's results for the ten months ended October 31, 2023.

The goodwill is not expected to be deductible for tax purposes.

Analysis of net cash outflow of cash and cash equivalents in respect of the acquisitions:

	Year ended December 31, 2022	Ten months ended October 31, 2023
	RMB'000	RMB'000
Cash considerations paid	144,380	8,900
Less: cash and cash equivalents acquired	(629)	(87)
Net cash outflow	143,751	8,813

31 DISPOSAL OF A SUBSIDIARY

In July 2022, the Group entered into agreements with PT KKV Investama Indonesia ("PT KKV Investama"), pursuant to which the Group agreed to transfer its entire 80% of equity interests in PT KKV Retail Indonesia ("PT KKV Retail") to PT KKV Investama. The aggregated consideration paid by PT KKV Investama was approximately equivalent to RMB36,537,000, which was settled by cash and assuming trade payables of PT KKV Retail at the date of disposal. Disposal loss of RMB6,473,000 was recognized accordingly. The consideration was determined based on arm's length negotiation by reference to net asset value of PT KKV Retail at the time of the disposal. The Group derecognised the assets and liabilities of PT KKV Retail from its consolidated balance sheets upon the date of disposal when losing control.

32 MATERIAL RELATED PARTY TRANSACTIONS

The table below sets forth the major related parties and their relationships with the Group:

Names of the major related parties	Relationship with the Group
Mr. Wu Yuening	Director
Mr. Guo Huibo	Director
Shanghai Black Algae Investment Management Center (上海黑藻投資管理中心) ("Shanghai Black Algae")	Shareholders with significant influence to the Group
Dongguan Xingkong*	Joint venture
Xian Jinding Huijie Business Information Consulting Co., Ltd. (西安金鼎匯捷商務信息諮詢有限公司) ("Xian Jinding")	Joint venture
Wenzhou Benju*	Joint venture
Ningxia Qishuntong Trading Co., Ltd. (寧夏啟順通商貿有限公司) ("Ningxia Qishuntong")	Joint venture
Xining Zhongai Trade Co., Ltd. (西寧中愛商貿有限責任公司) ("Xining Zhongai")	Joint venture
Wuhan Shengke *	Joint venture
Lanzhou Dianle Trading Co., Ltd. (蘭州點樂商貿有限公司) ("Lanzhou Dianle")	Joint venture
Yunnan Yanyan *	Joint venture
Fuzhou Wenke Trading Co., Ltd. (福州文客商貿有限公司) ("Fuzhou Wenke")	Joint venture
Dongguan Youjia*	Joint venture
Huizhou City Meihan Trading Co., Ltd. (惠州市美含商貿有限公司) ("Huizhou Meihan")	Joint venture
Wuhu City Gelv Trading Co., Ltd. (蕪湖市格律商貿有限公司) ("Wuhu Gelv")	Joint venture
Dongguan City Meixi Cosmetics Trading Co., Ltd. (東莞市美習化妝品商貿有限公司) ("Dongguan Meixi")	Joint venture
Henan Shaoke Trading Co., Ltd. (河南劭客商貿有限公司) ("Henan Shaoke")	Joint venture
Wuzhou Linke Trading Co., Ltd. (梧州霖客商貿有限公司) ("Wuzhou Linke")	Joint venture
Guangzhou Qike Trading Co., Ltd. (廣州祺客商貿有限責任公司) ("Guangzhou Qike")	Joint venture

* Upon the completion of the acquisitions during the year ended December 31, 2022 and the ten months ended October 31, 2023 (see Note 30), these entities became subsidiaries of the Group and were no longer considered to be related parties.

The official names of these entities are in Chinese. The English translation of the names are for identification only.

(a) Significant transactions with related parties

The Group entered into the following significant related party transactions during the Relevant Periods:

	Year ended December 31,			Ten months ended October 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 *(Unaudited)*	RMB'000
Loans proceeds from:					
Shanghai Black Algae	247,947	–	–	–	–
Loans repaid to:					
Shanghai Black Algae	183,070	247,947	–	–	–
Sales to:					
Joint ventures	129,329	703,290	607,251	591,412	150,663

(b) Significant balances with related parties

As of December 31, 2020, 2021, 2022 and October 31, 2023, the Group had the following significant year-end balances with related parties:

	As at December 31,			As at October 31,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Loans from:				
Non-trade related				
Shanghai Black Algae	(247,947)	–	–	–
Other receivables from:				
Non-trade related				
Mr. Wu Yuening	12,457	–	–	–
Mr. Guo Huibo	3,589	–	–	–
Trade related				
Joint ventures	47,172	231,269	–	–
	63,218	231,269	–	–
Other payables to:				
Trade related				
Joint ventures	(8,881)	(1,477)	(4,838)	(24,806)

(c) Key management personnel compensation

Remuneration for key management personnel of the Group, including amounts paid to the Directors of the Company and the five highest paid employees are disclosed in Notes 8 and 9.

33 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

As at the date of this report, the directors consider the immediate controlling parties of the Group to be MOGR Holding Co., Ltd. and Starlight Holding Co., Ltd., which are incorporated in the British Virgin Islands and the ultimate controlling parties of the Group to be Mr. Wu Yuening and Mr. Guo Huibo.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of this report, the HKICPA has issued a number of amendments, and a new standard which are not yet effective for the Relevant Periods and which have not been adopted in the Historical Financial Information. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Classification of liabilities as current or non-current*	January 1, 2024
Amendments to HKAS 1, *Non-current Liabilities with Covenants*	January 1, 2024
HKFRS 16, *Lease Liability in a Sale and Leaseback*	January 1, 2024
Amendments to HKAS 7, *Supplier finance arrangements*	January 1, 2024

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the year of initial application. So far, the Group has concluded that the adoption of them is unlikely to have a significant impact on the Historical Financial Information.

35 SUBSEQUENT EVENTS

No significant non-adjusting events have occurred subsequent to October 31, 2023.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries comprising the Group in respect of any period subsequent to October 31, 2023.

(A) BASES

Our Directors have prepared the estimate of the consolidated profit attributable to equity shareholders of our Company for the year ended December 31, 2023 (the "**Profit Estimate**") based on the audited consolidated results of our Group for the ten months ended October 31, 2023 and the unaudited consolidated results based on the management accounts of our Group for the remaining two months ended December 31, 2023. The Profit Estimate has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by our Group as summarized in the Accountants' Report, the text of which is set out in Appendix I to this document.

(B) PROFIT ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2023

On the basis set out in Appendix IA to this document, and in the absence of unforeseen circumstances, we estimate that our unaudited consolidated profit attributable to equity shareholders of our Company is as follows:

Estimated consolidated profit attributable to equity shareholders of our Company for the year ended December 31, 2023	No less than RMB[**REDACTED**]

(C) LETTER FROM THE REPORTING ACCOUNTANT

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

[Date]

The Directors
KK Group Company Holdings Limited
Morgan Stanley Asia Limited

Dear Sirs,

KK Group Company Holdings Limited (the "Company")

[Profit Estimate] for Year Ended [December 31, 2023]

We refer to the estimate of the [consolidated profit] attributable to equity holders of the Company for the year ended [December 31, 2023] (the "Profit Estimate") set forth in the section headed "Financial Information" in the document of the Company dated [date] (the "Document").

Directors' Responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the audited [consolidated] results of the Company and its subsidiaries (collectively referred to as the "Group") for the [ten] months ended [October 31, 2023] and the unaudited [consolidated] results based on the management accounts of the Group for the [two] months ended [December 31, 2023].

The Company's directors are solely responsible for the Profit Estimate.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements", which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures. We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in Appendix [IA] of the document and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated [date], the text of which is set out in Appendix I of the document.

Yours faithfully,

[KPMG]
Certified Public Accountants
Hong Kong

(D) LETTER FROM THE SOLE SPONSOR

The following is the text of a letter, prepared for inclusion in this document, received from the Sole Sponsor, in relation to the Group's Profit Estimate for the year ended December 31, 2023.

[●], 2024

The Directors
KK Group Company Holdings Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Dear Sirs,

We refer to the estimate of the combined profit attributable to the equity holders of KK Group Company Holdings Limited (the "**Company**", together with its subsidiaries, hereinafter collectively referred to as the "**Group**") for the year ended December 31, 2023 (the "**Profit Estimate**") as set out in this document issued by the Company dated [●], 2024 (the "**Document**").

The Profit Estimate, for which you as the directors of the Company (the "**Directors**") are solely responsible, has been prepared based on the audited [consolidated] results of the Group for the [ten] months ended [October 31, 2023] and the unaudited [consolidated] results based on the management accounts of the Group for the [two] months ended [December 31, 2023].

We have discussed with you the bases made by the Directors as set out in Appendix IA to this document upon which the Profit Estimate has been made. We have also considered the letter dated [●], 2024 addressed to you and us from KPMG regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Profit Estimate, for which you as Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Morgan Stanley Asia Limited
[Name]
[Title]

The information set forth in this appendix does not form part of the Accountants' Report from KPMG, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set forth in Appendix I to this document, and is included herein for illustrative purpose only.

The unaudited [**REDACTED**] *financial information should be read in conjunction with the section headed "Financial Information" in this document and the Accountants' Report set forth in Appendix I to this document.*

A. UNAUDITED [REDACTED] STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited [**REDACTED**] statement of adjusted net tangible assets of KK Group Company Holdings Limited ("the Company") and its subsidiaries (collectively "the Group") is prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is set out below for the purpose of illustrating the effect of the [**REDACTED**] on the consolidated net tangible liabilities of the Group attributable to equity shareholders of the Company as if it had taken place on October 31, 2023.

This unaudited [**REDACTED**] statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the [**REDACTED**] been completed as at October 31, 2023 or at any future dates.

	Consolidated net tangible liabilities attributable to equity shareholders of the Company as at October 31, 2023	Estimated [REDACTED] from the [REDACTED]	Estimated impact upon the termination of the financial liabilities measured at fair value through profit or loss	Unaudited [REDACTED] adjusted net tangible assets attributable to equity shareholders of the Company	Unaudited [REDACTED] adjusted net tangible assets attributable to equity shareholders of the Company per Share	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB	HKD
	(Note 1)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 5)*
Based on an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] .	(8,360,842)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] .	(8,360,842)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The consolidated net tangible liabilities attributable to equity shareholders of the Company as at October 31, 2023 is based on the consolidated net liabilities attributable to equity shareholders of the Company of RMB8,222,001,000, after deducting intangible assets of RMB51,793,000 and goodwill of RMB87,048,000 as shown in the Accountants' Report as set out in Appendix I to this document.

(2) The estimated [**REDACTED**] from the [**REDACTED**] are based on [**REDACTED**] [**REDACTED**] expected to be issued under the [**REDACTED**] and the indicative [**REDACTED**] of HK$[**REDACTED**] per Share and HK$[**REDACTED**] per share, being the low end and high end of the indicative [**REDACTED**] range respectively, after deduction of the estimated [**REDACTED**] and other estimated expenses related to the [**REDACTED**] paid or payable by the Group (excluding the [**REDACTED**] expenses charged to profit or loss during the Relevant Periods) and does not take into account of any shares which may be issued upon the exercise of the [**REDACTED**].

The estimated [**REDACTED**] from the [**REDACTED**] is converted into Renminbi at an exchange rate of HK$1 to RMB0.9091 published by PBOC prevailing on January 25, 2024. No representation is made that Hong Kong dollar amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rate or at all.

(3) The carrying amount of convertible redeemable preferred shares were RMB10,638,190,000 as of October 31, 2023 (as set out in Note 27 of Appendix I). Upon the [**REDACTED**] and completion of the [**REDACTED**], all these convertible redeemable preferred shares will be converted into ordinary shares, and the preferential rights of the abovementioned ordinary shares will be terminated, and these financial liabilities will be re-designated from liabilities to equity.

(4) The unaudited [**REDACTED**] adjusted net tangible assets attributable to equity shareholders of the Company per Share is arrived at after adjustments as described in notes (2) and (3) and on the basis that [**REDACTED**] Shares were in issue assuming that the [**REDACTED**] was completed on October 31, 2023 without taking into account of any shares which may be issued upon exercise of the [**REDACTED**].

(5) The unaudited [**REDACTED**] adjusted net tangible assets attributable to equity shareholders of the Company per Share is converted into Hong Kong dollars at an exchange rate of RMB1 to HK$1.1000 published by PBOC prevailing on January 25, 2024. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollar, or vice versa, at that rate or at any other rate or at all.

(6) No adjustments has been made to the unaudited [**REDACTED**] adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to October 31, 2023.

[**REDACTED**]

[REDACTED]

[REDACTED]

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on [●] and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is on display on the websites of the Stock Exchange and the Company as specified in Appendix V in the section headed "Documents available on display."

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on [●] and include provisions to the following effect:

2.1 Directors

(a) Power to allot and issue Shares

Subject to the provisions in the Memorandum of Association (and to any direction that may be given by the Company in general meeting) and without prejudice to any rights attached to any existing shares, the Directors may allot, issue, grant options over or otherwise dispose of shares with or without preferred, deferred or other rights or restrictions, whether in regard to dividend or other distribution, voting, return of capital or otherwise and to such persons, at such times and on such other terms as the Directors think proper.

(b) Power to dispose of the assets of the Company or any subsidiary

Subject to the provisions of the Companies Act, the Memorandum and Articles of Association and to any directions given by special resolution, the business of the Company shall be managed by the Directors who may exercise all the powers of the Company. No alteration of the Memorandum and Articles of Association and no such direction shall invalidate any prior act of the Directors which would have been valid if that alteration had not been made or that direction had not been given.

(c) Compensation or payment for loss of office

There are no provisions in the Articles of Association relating to compensation or payment for loss of office of a Director.

(d) Loans to Directors

There are no provisions in the Articles of Association relating to making of loans to Directors.

(e) Financial assistance to purchase Shares

There are no provisions in the Articles of Association relating to the giving of financial assistance by the Company to purchase shares in the Company or its subsidiaries.

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No person shall be disqualified from the office of Director or alternate Director or prevented by such office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director or alternate Director shall be in any way interested be or be liable to be avoided, nor shall any Director or alternate Director so contracting or being so interested be liable to account to the Company for any profit realised by or arising in connection with any such contract or transaction by reason of such Director or alternate Director holding office or of the fiduciary relationship thereby established, provided that the nature of the interest of any Director or any alternate Director in any such contract or transaction shall be disclosed by them at or prior to its consideration and any vote thereon.

A Director shall not be entitled to vote on (nor shall the Director 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 has any material interest, and if he shall do so his vote shall not be counted (nor shall he 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 the 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 the 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 the Company or any other company which the 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;

(iv) any proposal or arrangement concerning the benefit of employees of the 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 fund or retirement, death or disability benefits scheme which relates to the Director, his close associates and employees of the 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 the Company by virtue only of their interest in shares or debentures or other securities of the Company.

(g) Remuneration

The remuneration to be paid to the Directors, if any, shall be such remuneration as the Directors shall determine. The Directors shall also be entitled to be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of Directors or committees of Directors, or general meetings of the Company, or separate meetings of the holders of any class of shares or debentures of the Company, or otherwise in connection with the business of the Company or the discharge of their duties as a Director, or to receive a fixed allowance in respect thereof as may be determined by the Directors, or a combination partly of one such method and partly the other.

The Directors may approve additional remuneration to any Director for any services which in the opinion of the Directors go beyond that Director's ordinary routine work as a Director. Any fees paid to a Director who is also counsel, attorney or solicitor to the Company, or otherwise serves it in a professional capacity shall be in addition to their remuneration as a Director.

(h) Retirement, appointment and removal

The Company may by ordinary resolution appoint any person to be a Director, either to fill a vacancy or as an additional Director.

The Company may by ordinary resolution remove any Director (including a managing or other executive Director) before the expiration of such Director's term of office, notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director, and may by ordinary resolution elect another person in their stead. Nothing shall be taken as depriving a Director so removed of compensation or damages payable to such Director in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director.

The Directors may appoint any person to be a Director, either to fill a vacancy or as an additional Director provided that the appointment does not cause the number of Directors to exceed any number fixed by or in accordance with the Articles of Association as the maximum number of Directors. Any Director so appointed shall hold office only until the first annual general meeting of the Company after such Director's appointment and shall then be eligible for re-election at that meeting.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated if:

(i) the Director gives notice in writing to the Company that he resigns the office of Director;

(ii) the Director is absent (for the avoidance of doubt, without being represented by proxy or an alternate Director appointed by him) for a continuous period of 12 months without special leave of absence from the Directors, and the Directors pass a resolution that he has by reason of such absence vacated office;

(iii) the Director dies, becomes bankrupt or makes any arrangement or composition with his creditors generally;

(iv) the Director is found to be or becomes of unsound mind; or

(v) the Director is removed from office by notice in writing served upon such Director 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 then in office (including such Director).

At every annual general meeting of the 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 at such meeting. The 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.

(i) Borrowing powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

2.2 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.3 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class for the time being issued (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied only with the consent in writing of the holders of not less than three-fourths of the voting rights of the issued shares of that class, or with the approval of a resolution passed by a majority of not less than three-fourths of the votes cast at a separate meeting of the holders of the shares of that class. To any such meeting all the provisions of the Articles of Association relating to general meetings shall apply *mutatis mutandis*, except that the necessary quorum shall be one or more persons holding or representing by proxy or duly authorised representative at least one-third of the voting rights of the issued shares of that class.

The 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 the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.4 Alteration of capital

The Company may by ordinary resolution:

(a) increase its share capital by such sum as the ordinary resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as the Company in general meeting may determine;

(b) consolidate and divide all or any of its share capital into shares of 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 purchasers 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 the Company for the Company's benefit;

(c) by subdivision of its existing shares or any of them divide the whole or any part of its share capital into shares of smaller amount than is fixed by the Memorandum of Association or into shares without par value; and

(d) cancel any shares that at the date of the passing of the ordinary 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.

The Company may by special resolution reduce its share capital or any capital redemption reserve fund, subject to the provisions of the Companies Act.

2.5 Special resolution – majority required

A "special resolution" is defined in the Articles of Association to have the same meaning as in the Companies Act, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the 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 the Company entitled to vote at a general meeting of the 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 the 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 the Company aforesaid.

2.6 Voting rights

Subject to any rights or restrictions attached to any shares, at any general meeting every member of the Company present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have (a) the right to speak; (b) one vote on a show of hands; and (c) one vote for every share of which he is the holder on a poll.

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 holders the vote of the senior holder who tenders a vote, whether in person or by proxy (or in the case of a corporation or other non-natural person, by its duly authorised representative or proxy) shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the register of members of the Company.

A member of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by their committee, receiver, curator bonis, or other person on such member's behalf appointed by that court, and any such committee, receiver, curator bonis or other person may vote by proxy.

No person shall be counted in a quorum or be entitled to vote at any general meeting unless he is registered as a member on the record date for such meeting, nor unless all calls or other monies then payable by him in respect of shares have been paid.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairperson 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.

Any corporation or other non-natural person which is a member of the Company may in accordance with its constitutional documents, or in the absence of such provision by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members, and the person so authorised shall be entitled to exercise the same powers as the corporation could exercise if it were an individual member.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any general meeting of the Company or at any general meeting of any class of members of the 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 that person represents as that recognised clearing house (or its nominee(s)) could exercise as if such person were an individual member of the Company holding the number and class of shares specified in such authorisation, including the right to speak and, where a show of hands is allowed, the right to vote individually on a show of hands.

2.7 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting for each financial year within six months (or such other period as may be permitted by the Listing Rules or the Stock Exchange) after the end of such financial year. An annual general meeting shall be specified as such in the notices calling it.

The Directors may call general meetings, and they shall on a members' requisition forthwith proceed to convene an extraordinary general meeting of the Company. A members' requisition is a requisition of one or more members holding at the date of deposit of the requisition not less than 10% of the voting rights, on a one vote per share basis, of the issued shares which as at that date carry the right to vote at general meetings of the Company. The members' requisition must state the objects and the resolutions to be added to the agenda of the meeting and must be signed by the requisitionists and deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists. If there are no Directors as at the date of the deposit of the members' requisition or if the Directors do not within 21 days from the date of the deposit of the members' requisition duly proceed to convene a general meeting to be held within a further 21 days, the requisitionists, or any of them representing more than one-half of the total voting rights of all the requisitionists, may themselves convene a general meeting, but any meeting so convened shall be held no later than the day which falls three months after the expiration of the said 21 day period. A general meeting convened by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

2.8 Accounts and audit

The Directors shall cause proper books of account to be kept with respect to all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place, all sales and purchases of goods by the Company and the assets and liabilities of the Company. Such books of account must be retained for a minimum period of five years from the date on which they are prepared. Proper books shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

The Directors shall determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of members of the Company not being Directors, and no member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by the Companies Act or authorised by the Directors or by the Company in general meeting.

The Directors shall cause to be prepared and to be laid before the Company at every annual general meeting a profit and loss account for the period since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up, a Directors' report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditors' report on such accounts and such other reports and accounts as may be required by law.

2.9 Auditors

The Company shall at every annual general meeting by ordinary resolution appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The Company may by ordinary resolution remove an auditor before the expiration of his period of office. No person may be appointed as an auditor of the Company unless such person is independent of the Company. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed by ordinary resolution, or in the manner specified in such resolution.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice and any extraordinary general meeting shall be called by not less than 14 days' notice, which 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. 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.

Every notice shall specify the place, the day and the hour of the meeting, particulars of the resolutions and the general nature of the business to be conducted at the meeting. Notwithstanding the foregoing, a general meeting of the Company shall, whether or not the notice specified has been given and whether or not the provisions of the Articles of Association regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed:

(a) in the case of an annual general meeting, by all members of the Company entitled to attend and vote at the meeting; and

(b) in the case of an extraordinary general meeting, by a majority in number of the members having a right to attend and vote at the meeting, together holding not less than 95% in par 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, they may change or postpone the meeting to another date, time and place.

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 postponed:

(a) the Company shall endeavour to cause a notice of such postponement, which shall set out the reason for the postponement in accordance with the Listing Rules, to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, provided that failure to place or publish such notice shall not affect the automatic postponement of a general meeting due to a gale warning or black rainstorm warning being in force on the day of the general meeting;

(b) 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

(c) only the business set out in the notice of the original meeting shall be transacted at the reconvened meeting, and notice given for the reconvened meeting does not need to specify the business to be transacted at the reconvened meeting, nor shall any accompanying documents be required to be recirculated. Where any new business is to be transacted at such reconvened meeting, the Company shall give a fresh notice for such reconvened meeting in accordance with the Articles of Association.

2.11 Transfer of shares

Transfers of shares may be effected by an instrument of transfer, which shall be in writing and in any standard form of transfer as prescribed by the Stock Exchange or such other form as the Directors may approve.

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 the Company.

The Directors may decline to register any transfer of any share which is not fully paid up or on which the 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 the 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;

(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 the 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 the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall notify the transferor and the transferee within two months of such refusal.

The registration of transfers shall be suspended during such periods as the register of members of the Company is closed. The Directors may, on at least 10 business days' notice (or on at least 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, in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, close the register of members at such times and for such periods as the Directors may from time to time determine, provided that the register of members shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own shares

Subject to the provisions of the Companies Act, the Company may purchase its own shares provided that (a) the manner of purchase has first been authorised by the members of the Company by ordinary resolution, and (b) any such purchase shall only be made in accordance with any relevant code, rules or regulations issued by the Stock Exchange or the Securities and Futures Commission of Hong Kong from time to time in force.

2.13 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distribution

Subject to the Companies Act and the Articles of Association, the Company may by ordinary resolution resolve to pay dividends and other distributions on shares in issue and authorise payment of the dividends or other distributions out of the funds of the Company lawfully available therefor, provided no dividends shall exceed the amount recommended by the Directors. No dividend or other distribution shall be paid except out of the realised or unreleased profits of the Company, out of the share premium account or as otherwise permitted by law.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may in addition from time to time declare and pay special dividends on shares of such amounts and on such dates as they think fit.

Except as otherwise provided by the rights attached to any shares, all dividends and other distributions shall be paid according to the amounts paid up on the shares that a member holds during any portion or portions of the period in respect of which the dividend is paid. For this purpose no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may deduct from any dividends or other distribution payable to any member of the Company all sums of money (if any) then payable by the member to the Company on account of calls or otherwise. The Directors may retain any dividends or other monies payable on or in respect of a share upon which the 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.

No dividend shall carry interest against the Company. Except as otherwise provided by the rights attached to any shares, dividends and other distributions may be paid in any currency.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the 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 the 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 the 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. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other monies payable in cash in respect of shares may be paid by wire transfer to the holder or by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of the holder who is first named on the register of members of the Company or to such person and to such address as the holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any dividends, other distributions, bonuses, or other monies payable in respect of the shares held by them as joint holders.

Any dividend or other distribution which remains unclaimed after a period of six years from the date on which such dividend or distribution becomes payable shall be forfeited and shall revert to the Company.

The Directors, with the sanction of the members of the Company by ordinary resolution, may resolve that any dividend or other distribution be paid wholly or partly by the distribution of specific assets, and in particular (but without limitation) by the distribution of shares, debentures, or securities of any other company or in any one or more of such ways, 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 the Company, and may fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any members of the Company upon the basis of the value so fixed in order to adjust the rights of all members, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

A member of the Company entitled to attend and vote at a general meeting of the 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. Votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint any number of proxies to attend in his stead at any one general meeting or at any one class meeting.

The instrument appointing a proxy shall be in writing and shall be executed under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a corporation or other non-natural person, under the hand of its duly authorised representative.

The Directors shall, in the notice convening any meeting or adjourned meeting, or in an instrument of proxy sent out by the Company, specify the manner (including by electronic means) by which the instrument appointing a proxy shall be deposited and the place and the time (being not later than the time appointed for the commencement of the meeting or adjourned meeting to which the proxy relates) at which the instrument appointing a proxy shall be deposited.

The instrument appointing a proxy may be in any usual or common form (or such other form as the Directors may approve) and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked.

2.16 Calls on shares and forfeiture of shares

Subject to the terms of the allotment and issue of any shares, the Directors may make calls upon the members of the Company in respect of any monies unpaid on their shares (whether in respect of par value or premium), and each member of the Company shall (subject to receiving at least 14 clear days' notice specifying the times or times of payment) pay to the Company at the time or times so specified the amount called on his shares. A call may be revoked or postponed, in whole or in part, as the Directors may determine. A call may be required to be paid by instalments. A person upon whom a call is made shall remain liable for calls made upon him, notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call 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.

If a call remains unpaid after it has become due and payable, the person from whom it is due shall pay interest on the amount unpaid from the day it became due and payable until it is paid at such rate as the Directors may determine (and in addition all expenses that have been incurred by the Company by reason of such non-payment), but the Directors may waive payment of the interest or expenses wholly or in part.

If any call or instalment of a call remains unpaid after it has become due and payable, the Directors may give to the person from whom it is due not less than 14 clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any expenses incurred by the Company by reason of such non-payment. The notice shall specify where payment is to be made and shall state if the notice is not complied with the shares in respect of which the call was made will be liable to be forfeited.

If such notice is not complied with, any share in respect of which it was given may, before the payment required by the notice has been made, be forfeited by a resolution of the Directors. Such forfeiture shall include all dividends, other distributions or other monies payable in respect of the forfeited shares and not paid before the forfeiture.

A forfeited share may be sold, re-allotted or otherwise disposed of on such terms and in such manner as the Directors think fit.

A person any of whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares and shall surrender to the Company for cancellation the certificate for the shares forfeited and shall remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with interest at such rate as the Directors may determine, but that person's liability shall cease if and when the Company shall have received payment in full of all monies due and payable by them in respect of those shares.

2.17 Inspection of register of members

The Company shall maintain or cause to be maintained the register of members of the Company in accordance with the Companies Act. The Directors may, on giving 10 business days' notice (or 6 business days' notice in the case of a rights issue) by advertisement published on the Stock Exchange's website or, subject to the Listing Rules, in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, close the register of members at such times and for such periods as the Directors may 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 the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Except when the register is closed, the register of members shall during business hours be kept open for inspection by any member of the Company without charge.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present. Two members of the Company present in person or by proxy, or if a corporation or other non-natural person by its duly authorised representative or proxy, shall be a quorum unless the Company has only one member entitled to vote at such general meeting in which case the quorum shall be that one member present in person or by proxy, or in the case of a corporation or other non-natural person by its duly authorised representative or proxy.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.3 above.

2.19 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.

2.20 Procedure on liquidation

Subject to the Companies Act, the Company may by special resolution resolve that the Company be wound up voluntarily.

Subject to the rights attaching to any shares, in a winding up:

(a) if the assets available for distribution amongst the members of the Company shall be insufficient to repay the whole of the Company's paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, on the shares held by them at the commencement of the winding up;

(b) if the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the Company's paid up capital at the commencement of the winding up, the surplus shall be distributed amongst the members of the Company in proportion to the capital paid up on the shares held by them at the commencement of the winding up.

If the Company shall be wound up, the liquidator may with the approval of a special resolution of the Company and any other approval required by the Companies Act, divide amongst the members of the Company in kind the whole or any part of the assets of the Company (whether such assets shall consist of property of the same kind or not) and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like approval, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like approval, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the 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) the 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, the Company has caused an advertisement to be published in the newspapers or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the 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 the Company and upon receipt by the 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 Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, 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

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 March 2019 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The 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 Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act 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 Act 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;

(c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);

(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 Act 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 Act, 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.

4 Dividends and Distributions

With the exception of section 34 of the Companies Act, 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 Act 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 Act 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.

8 Accounting and Auditing Requirements

The Companies Act 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

An exempted 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 Act for an exempted 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 Act 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 Act 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.

12 Subsidiary Owning Shares in Parent

The Companies Act 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 Act 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) 75% in value of shareholders, or (b) a majority in number representing 75% in value of 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.

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 Restructuring

A company may present a petition to the Grand Court of the Cayman Islands for the appointment of a restructuring officer on the grounds that the company:

(a) is or is likely to become unable to pay its debts; and

(b) intends to present a compromise or arrangement to its creditors (or classes thereof) either pursuant to the Companies Act, the law of a foreign country or by way of a consensual restructuring.

The Grand Court may, among other things, make an order appointing a restructuring officer upon hearing of such petition, with such powers and to carry out such functions as the court may order. At any time (i) after the presentation of a petition for the appointment of a restructuring officer but before an order for the appointment of a restructuring officer has been made, and (ii) when an order for the appointment of a restructuring officer is made, until such order has been discharged, no suit, action or other proceedings (other than criminal proceedings) shall be proceeded with or commenced against the company, no resolution to wind up the company shall be passed, and no winding up petition may be presented against the company, except with the leave of the court. However, notwithstanding the presentation of a petition for the appointment of a restructuring officer or the appointment of a restructuring officer, a creditor who has security over the whole or part of the assets of the company is entitled to enforce the security without the leave of the court and without reference to the restructuring officer appointed.

18 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.

19 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.

20 Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, the 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 the Company or its operations; and

(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 the 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 Act (As Revised).

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 the 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 the Company.

21 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

22 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is on display on the websites as referred to in the section headed "Documents available on display" 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.

FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of Our Company

Our Company (formerly known as "KK Technology Company Holdings Limited") was incorporated in the Cayman Islands under the Cayman Islands Companies Act as an exempted company with limited liability on March 29, 2019. We have registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance with the address of principal place of business in Hong Kong at 5/F Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong. Ms. Ko Mei Ying has been appointed as our authorized representative for the acceptance of service of process and notices in Hong Kong. Our registered office is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

As we were incorporated in the Cayman Islands, our corporate structure and Memorandum and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum and Articles of Association is set out in the section headed "Summary of the Constitution of our Company and Cayman Islands Company Law" in Appendix III to this document.

2. Changes in Our Share Capital

As of the date of incorporation of our Company, our authorized share capital was USD50,000.00 divided into 500,000,000 Shares of a par value of USD0.0001 each.

The following sets out the changes in our Company's share capital from the incorporation of our Company to the date of the issue of this document.

On March 29, 2019, our Company completed the issuance of an aggregate of 10,000,000 Shares with a par value of USD0.0001 each to the following Shareholders:

Shareholders	Class of Shares	Number of Shares
MOGR Investment Co., Ltd.	Ordinary Shares	5,999,999
Starryland Investment Co., Ltd.	Ordinary Shares	4,000,000
Vistra (Cayman) Limited	Ordinary Shares	1

On August 7, 2020, our Company repurchased 2,473,653 Ordinary Shares from Starlight Holding Co., Ltd..

On August 7, 2020, our Company completed the issuance of the following Shares with a par value of USD0.0001 each to the following Shareholders:

Shareholders	Class of Shares	Number of Shares
MOGR	Ordinary Shares	2,356,312
KK Brothers	Ordinary Shares	1,124,309
	Series E Preferred Shares	797,025
	Class A2 Preferred Share	1
	Class B3 Preferred Share	1
	Class C2 Preferred Share	1
	Class PRE-D2 Preferred Share	1
	Class D1 Preferred Share	1
X Adventure Fund I L.P.	Series D Preferred Shares	83,694
N5Capital Fund II L.P.	Series D Preferred Shares	124,851
eWTP	Series E Preferred Shares	79,703
	Class C1 Preferred Share	1
	Class PRE-D1 Preferred Share	1
CMC Krypton	Series E Preferred Shares	2,191,819
INCE Capital Partners, L.P.	Series E Preferred Shares	398,513
Lighthouse Capital International Inc.	Series E Preferred Shares	31,881
Lighthousecap Fellow L.P.	Series E Preferred Shares	7,970
Lighthousecap International INC.	Series E Preferred Shares	39,851
SCGC Capital Holding Company Limited.	Class Seed1 Preferred Share	1
Bright Vision (Shenzhen) Enterprise Management Partnership (Limited Partnership).	Class A1 Preferred Share	1
	Class B2 Preferred Share	1
	Class C7 Preferred Share	1
Hangzhou Chuangqian Investment Partnership (Limited Partnership)	Class B1 Preferred Share	1
	Class C3 Preferred Share	1
	Class PRE-D3 Preferred Share	1
	Class D2 Preferred Share	1
	Class E1 Preferred Share	1
Bright Deshang (Shenzhen) Venture Capital Center (Limited Partnership)	Class C4 Preferred Share	1
Shenzhen Hongtai Growth Venture Capital Center (Limited Partnership)	Class C5 Preferred Share	1
Suzhou Wuyue Venture Capital Center (Limited Partnership)	Class C6 Preferred Share	1
	Class PRE-D4 Preferred Share	1
Shanghai Yiqian Enterprise Management Consulting Partnership (Limited Partnership)	Class D3 Preferred Share	1

On October 22, 2020, our Company completed the issuance of an aggregate of 1 Class E2 Preferred Share with a par value of USD0.0001 to Shenzhen Hongtai Growth Venture Capital Center (Limited Partnership).

The respective classes of Preferred Shares are golden shares of our Company (the "**Golden Share(s)**)", where each Golden Share entitled its holder the voting rights as if such holder holds such number of voting Ordinary Shares after the full exercise of their relevant Restructuring Warrants. Please refer to "History, Reorganization and Corporate Structure — Our Corporate History and Major Shareholding Changes of our Group" and "History, Reorganization and Corporate Structure — Reorganization" for details of the Restructuring Warrants and the Reorganization.

On April 9, 2021, our Company completed the issuance of an aggregate of 2,037,019 Series F Preferred Shares with a par value of USD0.0001 to the following Shareholders:

Shareholders	Class of Shares	Number of Shares
KK Brothers	Series F Preferred Shares	1,198,246
Bright Capital Limited	Series F Preferred Shares	239,649
CMC II	Series F Preferred Shares	179,737
Harvest International Premium Value (Secondary Market) Fund SPC on behalf of Harvest New Retail Investment SP	Series F Preferred Shares	119,825
Kamet Thrive 3 Limited	Series F Preferred Shares	119,825
Guolian Securities Global Investment SPC for the account of Guolian International China Consumer Fund I SP	Series F Preferred Shares	119,825
ZUIKAKU CO., LIMITED	Series F Preferred Shares	59,912

On May 28, 2021, our Company completed the issuance of an aggregate of 599,123 Series F Preferred Shares with a par value of USD0.0001 to Shanghai Yukuang Enterprise Management Consultation Partnership (Limited Partnership).

On May 31, 2021, our Company repurchased and cancelled:

(a) 1 Class Seed1 Preferred Share from SCGC Capital Holding Company Limited;

(b) 1 Class A1 Preferred Share, 1 Class B2 Preferred Share and 1 Class C7 Preferred Share from Bright Vision (Shenzhen) Enterprise Management Partnership (Limited Partnership);

(c) 1 Class A2 Preferred Share, 1 Class B3 Preferred Share, 1 Class C2 Preferred Share, 1 Class PRE-D2 Preferred Share and 1 Class D1 Preferred Share from KK Brothers;

(d) 1 Class B1 Preferred Share, 1 Class C3 Preferred Share, 1 Class PRE-D3 Preferred Share, 1 Class D2 Preferred Share, 1 Class E1 Preferred Share from Hangzhou Chuangqian Investment Partnership (Limited Partnership);

(e) 1 Class C1 Preferred Share and 1 Class PRE-D1 Preferred Share from eWTP;

(f) 1 Class C4 Preferred Share from Bright Deshang (Shenzhen) Venture Capital Center (Limited Partnership);

(g) 1 Class C5 Preferred Share and 1 Class E2 Preferred Share from Shenzhen Hongtai Growth Venture Capital Center (Limited Partnership);

(h) 1 Class C6 Preferred Share and 1 Class PRE-D4 Preferred Share from Suzhou Wuyue Venture Capital Center (Limited Partnership); and

(i) 1 Class D3 Preferred Share from Shanghai Yiqian Enterprise Management Consulting Partnership (Limited Partnership).

On May 31, 2021, our Company completed the issuance of the following Shares with a par value of USD0.0001 to the following Shareholders:

Shareholders	Class of Shares	Number of Shares
Red Earth Innovation International Company Limited	Series Seed Preferred Shares	401,462
KK Brothers	Series A Preferred Shares	1,890,846
	Series B Preferred Shares	507,473
	Series C Preferred Shares	390,865
	Series Pre-D Preferred Shares	482,187
	Series D Preferred Shares	1,074,397
Bright Galaxy Limited	Series A Preferred Shares	24,021
	Series B Preferred Shares	169,158
	Series C Preferred Shares	180,721
Shanghai Weili Enterprise Management Consultation Partnership (Limited Partnership)	Series B Preferred Shares	1,691,578
	Series C Preferred Shares	275,684
	Series Pre-D Preferred Shares	340,096
	Series D Preferred Shares	253,681
	Series E Preferred Shares	56,229
eWTP	Series C Preferred Shares	2,864,333
	Series Pre-D Preferred Shares	495,179
Oriental Grow Limited	Series C Preferred Shares	1,086,329
	Series Pre-D Preferred Shares	69,340
Shanghai Chongyi Enterprise Management Consultation Partnership (Limited Partnership)	Series C Preferred Shares	970,396
	Series E Preferred Shares	449,833
Bright Desun Limited	Series C Preferred Shares	73,222
Shanghai Yiqian Enterprise Management Consulting Partnership (Limited Partnership)	Series D Preferred Shares	292,929
INCE Capital Partners, L.P.	Series F Preferred Shares	119,825
Angara Innovation Limited	Series F Preferred Shares	479,298
Pluto Connection Limited	Series F Preferred Shares	179,737
CMBC INTERNATIONAL HOLDINGS LIMITED	Series F Preferred Shares	59,912
Starwin Fund SPC – SUNRISE FUND SP	Series F Preferred Shares	35,947

On June 4, 2021, our Company repurchased and cancelled 155,772 Series F Preferred Shares from KK Brothers.

On June 4, 2021, our Company completed the issuance of an aggregate of 239,649 Series F Preferred Shares with a par value of USD0.0001 to Redview Capital Investment XI Limited.

On September 10, 2021, Bright Capital Limited irrevocably surrendered the 239,649 Series F Preferred Shares to our Company for cancellation and for no consideration. Accordingly, our Company cancelled such 239,649 Series F Preferred Shares on the same day.

On [●], our Company [implemented] the Share Subdivision whereby each existing issued and unissued share capital with par value of USD0.0001 in the authorized share capital of our Company were subdivided into 25 ordinary shares with par value of USD0.000004 each and the authorized share capital of our Company [was] altered to USD[50,000] divided into [12,500,000,000] Shares with par value of USD0.000004 each. The total number of issued Shares in our Company [increased] from [34,814,658] Shares to [870,366,450] Shares.

For further details of the consideration relating to the allotment of Preferred Shares above, please see the section headed "History, Reorganization and Corporate Structure — [**REDACTED**]" in this document.

Save as disclosed above, there has been no alternation in our share capital within two years immediately preceding the date of this document.

Save as disclosed above and as mentioned in the paragraph headed "– 3. Resolutions of Our Shareholders" below, there has been no alteration in our share capital within the two years immediately preceding the date of this document.

3. Resolutions of Our Shareholders

Pursuant to a shareholders' resolution of our Company dated [●]:

(a) the Memorandum and Articles of Association were approved and adopted;

(b) conditional upon all the conditions set out in "[**REDACTED**] – [**REDACTED**]" in this document being fulfilled:

(i) the [**REDACTED**] was approved and the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to make or effect the same 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**]

(c) subject to the [**REDACTED**] becoming unconditional, a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with the Shares with an aggregate nominal value of not more than the sum of 20% of the aggregate nominal value of our share capital in issue immediately following the completion of the [**REDACTED**] and the aggregate nominal value of our share capital repurchased by us (if any) under the general mandate to repurchase Shares, such mandate to remain in effect until 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 expiration of the period within which the next annual general meeting of our Company is required under any applicable laws of the Cayman Islands or the Memorandum and the Articles to be held, or the date on which it is varied or revoked by an ordinary resolution of our Shareholders in a general meeting, whichever is the earliest; and

(d) subject to the [**REDACTED**] becoming unconditional, a general unconditional mandate was given to the Directors authorizing them to exercise all the powers of our Company to repurchase its own Shares on the Stock Exchange or on any other approved stock exchange on which our Shares may be [**REDACTED**] with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the [**REDACTED**] (excluding any Shares which may be issued pursuant to the exercise of the [**REDACTED**]), such mandate to remain in effect until 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 expiration of the period within which the next annual general meeting of our Company is required by any applicable laws of the Cayman Islands or the Memorandum and the Articles to be held, or the date on which it is varied or revoked by an ordinary resolution of our Shareholders in a general meeting, whichever is the earliest.

4. Corporate Reorganization

The companies comprising our Group underwent the Reorganization in preparation for the [**REDACTED**]. See "History, Reorganization and Corporate Structure" in this document for information relating to the Reorganization.

5. Changes in the Share Capital of Our Subsidiaries

Our subsidiaries during the Track Record Period are set out in the Accountants' Report in Appendix I to this document. The following alterations in the share capital of our subsidiaries have taken place within the two years immediately preceding the date of this document:

(1) Guangdong Kuaike Electronic

On April 9, 2021, the registered capital of Guangdong Kuaike Electronic was increased from RMB25,401,845.00 to RMB510,509,622.05. On June 1, 2021, the registered capital of Guangdong Kuaike Electronic was reduced from RMB510,509,622.05 to RMB12,283,713.13.

(2) Shenzhen Mengke Supply Chain Technology Co., Ltd. (深圳市盟客供應鏈科技有限公司)

On June 15, 2020, the registered capital of Shenzhen Mengke Supply Chain Technology Co., Ltd. increased from RMB20 million to RMB100 million. On August 7, 2020, the registered capital of Shenzhen Mengke Supply Chain Technology Co., Ltd. increased from RMB100 million to RMB1,000 million. On May 8, 2021, the registered capital of Shenzhen Mengke Supply Chain Technology Co., Ltd. increased from RMB1,000 million to RMB3,000 million.

(3) Guangdong Kuaike Commerce Management Co., Ltd. (廣東快客商業管理有限公司)

On August 13, 2020, the registered capital of Guangdong Kuaike Commerce Management Co., Ltd. was increased from USD50 million to USD300 million. On May 28, 2021, the registered capital of Guangdong Kuaike Commerce Management Co., Ltd. was increased from USD300 million to USD500 million.

(4) Guangzhou Kuaike Commerce Management Co., Ltd. (廣州快客商業管理有限公司)

On May 28, 2021, the registered capital of Guangzhou Kuaike Commerce Management Co., Ltd. was increased from USD100 million to USD200 million.

Save as disclosed above, there has been no alteration in the share capital of our subsidiaries within the two years preceding the date of this document.

6. Particulars of our subsidiaries

Particulars of our principal subsidiaries are set forth in Note 1 to the Accountants' Report, the text of which is set forth in Appendix I to this document.

Set out below is certain information of our non-wholly owned subsidiaries as of the Latest Practicable Date:

No.	Name of non-wholly owned subsidiary	Identity of other minority shareholders[(1)]	Approximate shareholding held by other minority shareholders
1 . . .	Kuaimaike (Chengdu) Commercial Management Co., Ltd. (快麥客(成都)商業管理有限公司)	Chengdu Jukunda Technology Co., Ltd. (成都鉅坤達科技有限公司)	49%
2 . . .	Henan Kuaizhishao Trading Co., Ltd. (河南快之劭商貿有限公司)	Henan Shaoye Trading Co., Ltd. (河南劭葉商貿有限公司)	49%
3 . . .	Fuyang Guoguang Trading Co., Ltd. (阜陽市國廣商貿有限公司)	Fuyang Zhengchun Trading Co., Ltd. (阜陽正純貿易有限公司)	49%
4 . . .	Shanghai Yuekezhidao Commercial Management Co., Ltd. (上海悅客之道商業管理有限公司)	Shanghai Yuezhiyue Commercial Management Co., Ltd. (上海悅之躍商業管理有限公司)	49%
5 . . .	Suzhou Yaner Commercial Management Co., Ltd. (蘇州燕洱商業管理有限公司)	Liu Yang (劉楊)	49%
6 . . .	Sichuan Yuesheng Commercial Management Co., Ltd. (四川省悅勝商業管理有限公司)	Sichuan Yuewen Commercial Management Co., Ltd. (四川省悅問商業管理有限公司)	49%
7 . . .	Urumqi Ruike Business Commercial Management Co., Ltd. (烏魯木齊瑞客商業管理有限公司)	Xinjiang Ruidilai Trading Co., Ltd. (新疆瑞迪來商貿有限公司)	49%

Notes:

(1) To the best of our knowledge, information and belief, having made all reasonable enquiries, none of the other minority shareholders was a connected person of our Company as of the Latest Practicable Date (other than being substantial shareholders of our subsidiaries).

7. Repurchase of our own securities

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary [**REDACTED**] 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 [**REDACTED**] 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 resolution of the Shareholders passed at an extraordinary general meeting of our Company held on [●], 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 Shares 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 [**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.

(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 [**REDACTED**] 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 from time to time. Under the Cayman Islands Companies Act, the par value of any Shares bought back by us may be provided for out of our profits or out of the proceeds of a fresh issue of Shares made for the purpose of the purchase or, if so authorized by the Articles of Association and subject to the provisions of the Cayman Islands Companies Act, out of capital. Any premium payable on a purchase over the par value of our Shares to be bought back must be provided for out of our profits or from sums standing to the credit of our share premium account or, if authorized by the Articles of Association and subject to the provisions of the Cayman Islands Companies Act, out of capital.

(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 [**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 [**REDACTED**] days on which its shares were [**REDACTED**] 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. Under the Articles and as permitted under the Cayman Islands Companies Act, the Shares we bought back shall be treated as canceled and the amount of our Company's issued share capital shall be reduced by the aggregate par value of the bought back shares accordingly although the authorized share capital of our Company will not be reduced.

(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

(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 [**REDACTED**] 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 annual report 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 the Cayman Islands.

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 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 [**REDACTED**] (but not taking into account any Shares which may be issued pursuant to the exercise of the [**REDACTED**]), could accordingly result in up to [**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 Repurchase Mandate by an ordinary resolution of the Shareholders in general meeting.

(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. We 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 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.

FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this document that are or may be material:

(a) the equity transfer agreements entered into by Dongguan Kuaike Business Management Co., Ltd. (東莞市快客商業管理有限公司) during October 18, 2022 to October 21, 2022 in relation to the Acquisitions of the Joint Ventures and Non-wholly Owned Subsidiaries; and

(b) [**REDACTED**]

2. Intellectual Property Rights of Our Group

As of the Latest Practicable Date, the following intellectual property rights which we consider are material to our Group's business:

(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	Registered Owner	Class(es)	Place of Registration
1. . . .	KK馆	Guangdong Kuaike Electronic	3, 9, 10, 16, 21, 35, 42	PRC
2. . . .	KiK	Guangdong Kuaike Electronic	1, 2, 3, 4, 5, 6, 10, 11, 13, 17, 19, 20, 21, 23, 24, 26, 27, 29, 35, 31, 34, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45	PRC
3. . . .	KiKV	Guangdong Kuaike Electronic	1, 2, 4, 5, 6, 7, 8, 9, 10, 11, 13, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 26, 27, 28, 29, 30, 31, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45	PRC
4. . . .		Guangdong Kuaike Electronic	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45	PRC
5. . . .	THE COLORIST 调色师	Guangdong Kuaike Electronic	2, 3, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 24	PRC
6. . . .	THE COLORIST	Guangdong Kuaike Electronic	3, 5, 8, 9, 10, 16, 18, 20, 21, 35	PRC
7. . . .	COLORIST HOME	Guangdong Kuaike Electronic	35	PRC
8. . . .	THE COLORIST PLUS	Guangdong Kuaike Electronic	35	PRC

(b) Patents

As of the Latest Practicable Date, we had registered the following patents which we consider to be material to our Group's business:

No.	Title	Registered Owner	Nature of Patent	Place of Registration
1. . . .	Bottle (瓶子)	Guangdong Kuaike Electronic	Design Patent (外觀專利)	PRC
2. . . .	Display cabinet (陳列櫃)	Shenzhen Colorist (深圳調色師)	Design Patent (外觀專利)	PRC
3. . . .	Display wall (陳列牆)	Shenzhen Colorist (深圳調色師)	Design Patent (外觀專利)	PRC
4. . . .	Display box (展示盒)	Shenzhen Colorist (深圳調色師)	Design Patent (外觀專利)	PRC
5. . . .	Makeup display box (化妝品展示盒)	Shenzhen Colorist (深圳調色師)	Design Patent (外觀專利)	PRC
6. . . .	A kind of display cabinet (一種展示櫃)	Shenzhen Colorist (深圳調色師)	Utility Model (實用新型)	PRC
7. . . .	Display box and display cabinet (展示盒及展示櫃)	Shenzhen Colorist (深圳調色師)	Utility Model (實用新型)	PRC

(c) Copyrights

As of the Latest Practicable Date, we had registered the following copyrights which we consider to be material to our Group's business:

No.	Title	Registered Owner	Nature of Copyright	Place of Registration
1.	THE COLORIST 調色師	Shenzhen Colorist (深圳調色師)	Artwork (美術作品)	PRC
2.	THE COLORIST	Shenzhen Colorist (深圳調色師)	Artwork (美術作品)	PRC
3.	Makeup rating radar chart (美妝評分雷達圖)	Guangdong Kuaike Electronic	Artwork (美術作品)	PRC
4.	KK trademark logo design (KK商標標識設計圖)	Guangdong Kuaike Electronic	Artwork (美術作品)	PRC
5.	X11 trademark logo design (X11商標標識設計圖)	Guangdong Kuaike Electronic	Artwork (美術作品)	PRC
6.	KKV trademark logo design (KKV商標標識設計圖)	Guangdong Kuaike Electronic	Artwork (美術作品)	PRC
7.	THE COLORIST 調色師 trademark logo design (THE COLORIST調色師商標標識設計圖)	Guangdong Kuaike Electronic	Artwork (美術作品)	PRC
8.	THE COLORIST 調色師 store image design (THE COLORIST調色師品牌門店形象設計圖)	Guangdong Kuaike Electronic	Artwork (美術作品)	PRC
9.	KKV store image design (KKV品牌門店形象設計圖)	Guangdong Kuaike Electronic	Artwork (美術作品)	PRC
10.	X11 store image design (X11品牌門店形象設計圖)	Guangdong Kuaike Electronic	Artwork (美術作品)	PRC
11.	KK Group logo design (KK集團LOGO標識設計圖)	Guangdong Kuaike Electronic	Artwork (美術作品)	PRC
12.	Guan Bu Zhu Zui trademark logo design (管不住嘴商標標識設計圖)	Guangdong Kuaike Electronic	Artwork (美術作品)	PRC
13.	THE COLORIST 調色師女孩	Guangdong Kuaike Electronic	Artwork (美術作品)	PRC
14.	KK Guan iOS App software V3.2.1 (KK館iOS App軟件V3.2.1)	Guangdong Kuaike Electronic	N/A	PRC
15.	KK Guan Android App software V3.2.0 (KK館安卓 APP軟件V3.2.0)	Guangdong Kuaike Electronic	N/A	PRC
16.	Xin Ke KPOS store cashier management system V1.0 (信客KPOS門店收銀管理系統 V1.0)	Shenzhen Xin Ke (深圳信客)	N/A	PRC
17.	Xin Ke unified authority management system V1.0 (信客統一權限管理系統V1.0)	Shenzhen Xin Ke (深圳信客)	N/A	PRC
18.	Xin Ke Keewood building block low code development system V1.0 (信客Keewood積木低代碼開發系統 V1.0)	Shenzhen Xin Ke (深圳信客)	N/A	PRC

No.	Title	Registered Owner	Nature of Copyright	Place of Registration
19. . .	Xin Ke TERP enterprise resource management system V1.0 (信客TERP企業資源管理系統 V1.0)	Shenzhen Xin Ke (深圳信客)	N/A	PRC
20. . .	Xin Ke KVCM store visual display system V1.0 (信客KVCM門店可視化陳列系統 V1.0)	Shenzhen Xin Ke (深圳信客)	N/A	PRC
21 . .	KKV store 3.0 image design (KKV品牌門店3.0形象設計圖)	Guangdong Kuaike Electronic	Artwork (美術作品)	PRC

FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) Interests and short positions of the Directors and the chief executives of our Company in the shares, underlying shares and debentures of our Company and its associated corporations

(i) Interest in the Shares or underlying shares of our Company

Immediately following completion of the [**REDACTED**] (without taking into account the Shares to be allotted and issued upon the exercise of the [**REDACTED**]), the interests or short positions of 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 [**REDACTED**] as set out in Appendix 10 to the Listing Rules ("**Model Code**") once our Shares are [**REDACTED**], will be as follows:

Name of Director/chief executive	Nature of Interest	Number of Shares upon [REDACTED]	Approximate percentage of shareholding interest upon [REDACTED]
Mr. Wu[(1)]	Interest in controlled corporation; Interest held jointly with other persons	[**REDACTED**]	[**REDACTED**]
Mr. Guo[(1)].	Interest in controlled corporation; Interest held jointly with other persons	[**REDACTED**]	[**REDACTED**]
Mr. Liang Jie (梁捷)[(2)].	Founder of a discretionary trust	[**REDACTED**]	[**REDACTED**]

Notes:

(1) MOGR is wholly owned by Mr. Wu, chairman of our Board, executive Director and chief executive officer. Starlight is wholly owned by Mr. Guo, our executive Director and president. On September 23, 2021, Mr. Wu and Mr. Guo signed the acting in concert confirmation, pursuant to which, Mr. Wu and Mr. Guo confirmed, among other things, that they had been acting in concert in our Group with each other since January 2017, and they would continue to act in the same manner in our Group upon [**REDACTED**] until the date when Mr. Wu or Mr. Guo cease to hold any equity interest in our Company, or when the acting in concert arrangement is terminated in writing by Mr. Wu and Mr. Guo, whichever is earlier. By virtue of the SFO, each of Mr. Wu and Mr. Guo together with their respective controlled corporation (being MOGR and Starlight) is deemed to be interested in the total Shares directly held by MOGR and Starlight.

(2) KK Brothers is wholly owned by Diligent Shine Inc., which is in turn wholly owned by Verticillata Inc.. Verticillata Inc. is held as to 100% by TMF (Cayman) Ltd, the trustee of the Liang Family Trust. Liang Family Trust is a trust established by Mr. Liang Jie, our non-executive Director, for the benefit of himself and his family. By virtue of SFO, each of Diligent Shine Inc., Verticillata Inc., TMF (Cayman) Limited and Mr. Liang Jie is deemed to be interested in the Shares held by KK Brothers.

(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," immediately following the completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised), our Directors are not aware of any other person (not being a Director or chief executive of our Company) who will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to us and the Stock Exchange 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.

Save as set out above, as of the Latest Practicable Date, our Directors or chief executive were not aware of any other person, not being a Director or chief executive of our Company would, immediately following the completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised), be interested, directly or indirectly, 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.

2. Particulars of Service Contract and Letters of Appointment

(a) Executive Directors

Each executive Director 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 one month's 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 non-executive Directors and the independent non-executive Directors has signed an appointment letter with our Company for a term of three year 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 Director is not entitled to any remuneration. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

(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 three years ended December 31, 2020, 2021 and 2022 and for the ten months ended October 31, 2023, the aggregate of the remuneration and benefits in kind payable to the Directors was approximately RMB3.70 million, RMB4.30 million, RMB4.13 million and RMB3.58 million, respectively. Details of the Directors' remuneration are also set out in note 8 of the Accountants' 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 three years ended December 31, 2020, 2021 and 2022 and for the ten months ended October 31, 2023 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, 2023 is estimated to be approximately RMB4.61 million.

(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, 2022 and for the ten months ended October 31, 2023 (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, 2022 and for the ten months ended October 31, 2023.

(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/her in connection with the promotion or formation of our Company.

3. Fees or commissions received

Save as disclosed in the section headed "Other Information – 4. Sole Sponsor" below, and in the section headed [**REDACTED**] in this document, none of the Directors or any of the persons whose names are listedunder the section headed "– Other Information – 8. 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 the section headed "Statutory and General Information – Further Information about Our Directors and Substantial Shareholders" above and the section headed "Substantial Shareholders" 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/she 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 "– Other Information – 8. 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 "– Other Information – 8. 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;

(d) other than pursuant to the [**REDACTED**], none of the parties listed in the section headed "– Other Information – 8. 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 for 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.

RSU SCHEME

A. RSU Scheme

Summary of Terms

Our Company has adopted an RSU Scheme on June 23, 2021. The RSU Scheme does not involve the grant of RSUs by our Company after [**REDACTED**].

1. Purposes of the RSU Scheme

The purpose of the RSU Scheme is to recognize and reward RSU Participants (as defined below) for their contribution to our Group, to attract suitable personnel, and to provide incentives to them to remain with and further contribute to our Group.

2. Awards

An award of RSUs under the RSU Scheme (the "**Award(s)**") gives a RSU Participant a conditional right upon vesting of the Award to obtain either non-voting ordinary shares of [US$0.000004] each in the share capital of our Company, which will be converted to Ordinary Shares on a one-for-one basis on the [**REDACTED**], (the "**Non-voting Ordinary Shares**") or Ordinary Shares (as applicable) or an equivalent value in cash with reference to the value of the Non-voting Ordinary Shares or Ordinary Shares (as applicable) on or about the date of vesting, as determined by the Board in its absolute discretion, less any tax, fees, levies, stamp duty and other applicable charges. An award may include, if so specified by the Board in its entire discretion, cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Non-voting Ordinary Shares or Ordinary Shares (as applicable) from the date that the Award is granted to the date that it vests.

3. RSU Scheme Limit and Conversion of Non-voting Ordinary Shares

The total number of Shares underlying the RSU Scheme shall not exceed 2,657,335 Non-voting Ordinary Shares (the "**RSU Limit**"). Without prejudice to the generality of the aforementioned, our Company will not further issue new Non-voting Ordinary Shares or Ordinary Shares (as applicable) for the purpose of the RSU Scheme.

Upon completion of the [**REDACTED**] and the [**REDACTED**], the 2,657,335 Non-voting Ordinary Shares which are reserved under the RSU Scheme will be automatically converted to Ordinary Shares ranking para passu in all respects with the existing fully paid Ordinary Shares in issue on a one-for-one basis on the [**REDACTED**] pursuant to the Second Amended and Restated Memorandum and Articles of Association of our Company, as amended and or restated from time to time.

In the event of any alteration in the capital structure of our Company, such as capitalization issue, rights issue, consolidation, sub-division and reduction of the share capital of our Company, the Board may make equitable adjustments that it considers appropriate, at its sole discretion, as further described in the paragraph headed "20. Reorganization of Capital Structure" below.

4. RSU Participants in the RSU Scheme

Participants of the RSU Scheme (the "**RSU Participant(s)**") include the following:

(i) full-time employees (including directors, officers and members of senior management) of our Group; and

(ii) any person who, in the sole opinion of the Board, has contributed or will contribute to any member of our Group (including business partners of any member of our Group, such as suppliers, customers or any persons who provide technical support, consultancy, advisory or other services to any member of our Group).

5. Term of the RSU Scheme

Subject to any early termination as may be determined by the Board pursuant to the termination clause of the RSU Scheme, the RSU Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date, after which no Awards will be granted, but the provisions of the RSU Scheme shall in all other respects remain in full force and effect and the Awards granted during the term of the RSU Scheme may continue to be valid and exercisable in accordance with their terms of grant.

6. Administration of the RSU Scheme

The RSU Scheme shall be subject to the administration of the Board. The Board shall have the sole and absolute right to (i) interpret and construe the provisions of the RSU Scheme, (ii) determine the persons who will be granted Awards under the RSU Scheme, the terms and conditions on which Awards are granted and when the RSUs granted pursuant to the RSU Scheme may vest, (iii) make such appropriate and equitable adjustments to the terms of the Awards granted under the RSU Scheme as it deems necessary and (iv) make such other decisions or determinations as it shall deem appropriate in the administration of the RSU Scheme. The Board may by resolution delegate any or all of its powers in the administration of the RSU Scheme to an administration committee or any other committee as authorized by the Board for such purpose. All decisions, determinations and interpretations made by the Board shall be final, conclusive and binding on all parties.

7. Appointment of RSU Trustee

Our Company has appointed Futu Trustee Limited, a trustee service provider and an Independent Third Party, to administer the granting and vesting of RSUs granted to the grantees pursuant to the RSU Scheme.

8. Grant of RSU

On and subject to the terms of the RSU Scheme and the terms and conditions that the Board imposes, the Board shall be entitled to make an offer of the grant of an Award in accordance with the RSU Scheme (the "**Grant**") to any RSU Participant, as the Board may in its absolute discretion determine.

The amount of an Award may be determined at the sole and absolute discretion of the Board and may differ among selected RSU Participants.

Awards may be granted on such terms and conditions (e.g. by linking the vesting of RSUs to the attainment or performance of milestones by any member of our Group, any Participant who accepts a Grant in accordance with the RSU Scheme (the "**Grantee**") or any group of Grantees) as the Board may determine, provided that such terms and conditions shall be consistent with any other terms and conditions of the RSU Scheme.

Nil consideration is required to be paid by the selected RSU Participants for the grant of an Award.

After the Board has selected the RSU Participants, it will inform the RSU Trustee of the name(s) of the person(s) selected, the number of Shares underlying the RSUs to be granted to each of them, the vesting schedule, the lock-up arrangements upon vesting (as applicable where the RSUs shall vest immediately upon acceptance of the Grant as determined by the Board) and other terms and conditions (if any) that the Award is subject to as determined by the Board.

Subject to limitations and conditions of the RSU Scheme, the Board may authorize the RSU Trustee by written notification to grant to each of the selected RSU Participants an offer of Grant by way of a letter or any such notice or document in such form as the Board may from time to time determine (the "**Notice of Grant**"), which shall attach a notice of Award, subject to conditions as the Board thinks fit.

9. Acceptance of Award

A Grant shall be deemed to have been accepted and to have taken effect on the date of the Notice of Grant, unless the selected RSU Participant notifies the Board in writing otherwise within 7 days of the Notice of Grant.

10. Restrictions on Grants

No Grant shall be made to, nor shall any Grant be capable of acceptance by, any selected RSU Participant at a time when the selected RSU Participant would or might be prohibited from dealing in the Shares by the Listing Rules (where applicable) or by any other applicable rules, regulations or law.

The Board may not grant any Awards to any RSU Participants in any of the following circumstances:

(i) requisite approvals from any applicable regulatory authorities for the Grant have not been obtained; or

(ii) applicable securities laws, rules or regulations require that a document or other offering document(s) be issued in respect of the Grant or the RSU Scheme, unless the Board determines otherwise;

(iii) the Grant would result in a breach of any applicable securities laws, rules or regulations by any member of our Group or any of its directors; or

(iv) the Grant would result in breach of the RSU Limit or other rules of the RSU Scheme.

11. Rights attached to Awards

The RSUs do not carry any right to vote at general meetings of our Company. No Grantee shall enjoy any of the rights of a Shareholder by virtue of the grant of an Award pursuant to the RSU Scheme, unless and until such Non-voting Ordinary Shares or Ordinary Shares (as applicable) underlying the Award are actually transferred to the Grantee upon the vesting of the RSU, and the Grantee who receives Non-voting Ordinary Shares upon vesting of the Award would not have the voting right as a shareholder of our Company until such Non-voting Ordinary Shares have been converted to Ordinary Shares. Unless otherwise specified by the Board in its entire discretion in the Notice of Grant, Grantees do not have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Non-voting Ordinary Shares or Ordinary Shares (as applicable) underlying an Award.

12. Rights attached to Shares

Any Non-voting Ordinary Shares or Ordinary Shares (as applicable) to be transferred to a Grantee or his wholly owned entity upon the vesting of RSUs granted pursuant to the RSU Scheme shall be subject to all the provisions of the Memorandum and Articles of Association of our Company and shall rank *pari passu* in all respects with the existing fully paid Non-voting Ordinary Shares or Ordinary Shares (as applicable) in issue on the date of transfer, or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, and accordingly shall entitle the holder of such Non-voting Ordinary Shares or Ordinary Shares (as applicable) to participate in all dividends or other distributions paid or made on or after the date of transfer.

13. Awards to be Personal to the Grantee

Any Award granted pursuant to the RSU Scheme shall be personal to the Grantee and shall not be assignable or transferable, except as pursuant to an assignment or transfer from a Grantee to a company wholly owned by him or her or between two companies both of which are wholly owned by him, provided that, following the Grantee's death, the RSUs may be transferred by will or by the laws of testacy and distribution. The terms of the RSU Scheme and the Notice of Grant shall be binding upon the Grantee's executors, administrators, heirs, successors and assigns.

Notwithstanding the above, no Grantee shall in any way sell, transfer, assign, charge, mortgage, encumber, hedge or create any interest in favor of any other person over or in relation to any RSU or any property held by the RSU Trustee on trust for the Grantees, Awards, or any interest or benefits therein.

14. Vesting

Subject to the terms of the RSU Scheme and the specific terms and conditions applicable to each Award, the RSUs granted in an Award shall be subject to a vesting period (if any) and the satisfaction of performance and/or other conditions (if any) to be determined by the Board in its absolute discretion which shall be stated in the Notice of Grant.

If any conditions applicable to an Award are not satisfied, the RSU shall automatically lapse on the date on which such conditions are not satisfied, as determined by the Board in its absolute discretion.

The Non-voting Ordinary Shares or Ordinary Shares (as applicable) underlying the RSUs are subject to a 180-day lockup period upon the [**REDACTED**], during which period the Grantee(s) shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of such Non-voting Ordinary Shares or Ordinary Shares (as applicable).

Upon fulfillment or waiver of the vesting period and vesting criteria (if any) applicable to a Grantee, a vesting notice shall be sent to the Grantee by the Board, or by the RSU Trustee under the authorization and instruction by the Board confirming (a) the extent to which the vesting period and conditions have been fulfilled or waived, (b) the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of these Shares) or the amount of cash the Grantee will receive, and (c) where the Grantee will receive Shares, the lock-up arrangements for such Shares (if applicable).

The RSUs which have been vested shall be satisfied at the Board's absolute discretion within a reasonable period from the vesting date of such RSU, either by:

(a) the Board directing and procuring the RSU Trustee to transfer the Non-voting Ordinary Shares or the Ordinary Shares (as applicable) underlying the Award (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Non-voting Ordinary Shares or the Ordinary Shares (as applicable)) to the Grantee or his wholly owned entity from the trust fund established for the RSU Scheme; and/or

(b) the Board directing and procuring the RSU Trustee to pay to the Grantee in cash an amount which is equivalent to the value of the Ordinary Shares (as converted from the Non-voting Ordinary Shares) (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Ordinary Shares) set out in paragraph (a) above by making on-market sales of such Ordinary Shares and after deduction or withholding of any tax, fees, levies, stamp duty and other charges applicable to the entitlement of the Grantee and the sales of any Ordinary Shares to fund such payment and in relation thereto.

Notwithstanding the foregoing, if our Company, the RSU Trustee or any Grantee would or might be prohibited from dealing in the Non-voting Ordinary Shares or the Ordinary Shares (as applicable) by the Listing Rules (where applicable) or by any other applicable laws, regulations or rules within the period specified above, the date on which the relevant Non-voting Ordinary Shares or the Ordinary Shares (as applicable) shall be transferred or issued and allotted (as the case may be) to the Grantee shall occur as soon as possible after the date when such dealing is permitted by the Listing Rules or by any other applicable laws, regulations or rules.

The Board shall have the sole and absolute discretion to determine whether or not a Grantee shall have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying an Award prior to vesting of the Award.

15. Rights on a Takeover

In the event an offer by way of voluntary offer, takeover or otherwise (other than by way of scheme of arrangement) is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the vesting date of any RSU, a Participant's RSU will vest immediately, even if the vesting period has not yet commenced.

16. Rights on a Scheme of Arrangement

In the event a general offer for Shares by way of scheme of arrangement is made to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings prior to the vesting of any RSU, a Participant's RSU will vest immediately, even if the vesting period has not yet commenced.

17. Rights on a Voluntary Winding-up

In the event a notice is given by our Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company prior to the vesting date of any RSU, the Board shall determine at its discretion whether such RSU shall vest and the period when such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the Grantee that the RSU shall vest and the period within which such RSU shall vest.

18. Rights on a Compromise or Arrangement

In the event a compromise or arrangement, other than a scheme of arrangement contemplated above, between our Company and the Shareholders and/or creditors is proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, the Board shall determine at its discretion whether such RSU shall vest and the period when such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the Grantee that the RSU shall vest and the period within which such RSU shall vest.

19. Lapse of RSU

The unvested RSUs shall automatically lapse upon the earliest of:

(i) the date of termination of the Grantee's employment or service by any member of our Group;

(ii) the date on which the offer (or, as the case may be, revised offer) referred to in the subsection headed "15. Rights on a Takeover" of this section closes;

(iii) the record date for determining entitlements under the scheme of arrangement referred to in the subsection headed "16. Rights on a Scheme of Arrangement" of this section;

(iv) the date of commencement of a winding-up of our Company;

(v) the date on which the Grantee commits a breach of the terms and conditions referred to in the subsection headed "13. Awards to be Personal to the Grantee" of this section;

(vi) the date on which it is no longer possible to satisfy any outstanding conditions to vestings; or

(vii) the time when the Board has decided that the unvested RSUs shall not be vested in the Grantee in accordance with the rules of the RSU Scheme and the terms and conditions as set out in the Notice of Grant.

The Board shall have the right to determine what constitutes valid grounds on which our Company or any of our Company's subsidiaries would be entitled to terminate the Grantee's employment or office (the "**Cause**"), whether the Grantee's employment has been terminated for Cause and the effective date of such termination, and such determination by the Board shall be final and conclusive.

If the Grantee's employment or service with our Company or any of our Company's subsidiaries is terminated for any reason other than for Cause (including by reason of resignation, retirement, death, disability or non-renewal of the employment or service agreement upon its expiration for any reason other than for Cause), the Board shall determine at its absolute discretion and shall notify the Grantee whether any unvested RSU granted to such Grantee shall vest and the period within which such RSU shall vest. If the Board determines that such RSU shall not vest, such RSU shall automatically lapse with effect from the date on which the Grantee's employment or service is terminated.

Notwithstanding the aforesaid, in each case, the Board may in its absolute discretion decide that any RSU shall not lapse or shall be subject to such conditions or limitations as the Board may decide.

20. Reorganization of Capital Structure

In the event of any alteration in the capital structure of our Company, such as capitalization issue, rights issue, consolidation, sub-division and reduction of the share capital of our Company, the Board may make equitable adjustments that it considers appropriate, at its sole discretion, including:

(i) make arrangements for the grant of substitute RSUs of equivalent fair value to an Award in the purchasing or surviving company;

(ii) reach such accommodation with the Grantee as it considers appropriate, including the payment of cash compensation to the Grantee equivalent to the fair value of any RSU to the extent not vested;

(iii) waive any conditions to the vesting of any RSU not already vested; or

(iv) permit the continuation of an Award in accordance with its original terms.

21. Amendment of the RSU Scheme

The terms of the RSU Scheme may be altered, amended or waived in any respect by the Board provided that such alteration, amendment or waiver shall not affect any subsisting rights of any Grantee thereunder. Any alteration, amendment or waiver to the RSU Scheme of a material nature shall be approved by the Shareholders. The Board shall have the right to determine whether any proposed alteration, amendment or waiver is material and such determination shall be conclusive.

22. Termination of the RSU Scheme

The RSU Scheme may be terminated at any time prior to the expiry of its term by the Board provided that such termination shall not affect any subsisting rights of any Grantee hereunder. For the avoidance of doubt, no further Awards shall be granted after the RSU Scheme is terminated but in all other respects the provisions of the RSU Scheme shall remain in full force and effect. All RSUs granted prior to such termination and not vested on the date of termination shall remain valid. In such event, the Board shall notify the RSU Trustee and all Grantees of such termination and how the Non-voting Ordinary Shares held by the RSU Trustee and other interests or benefits in relation to the outstanding RSUs shall be dealt with, provided that Non-voting Ordinary Shares held by the RSU Trustee shall not be transferred to our Company and our Company shall not otherwise hold any Non-voting Ordinary Shares or any interest in Non-voting Ordinary Shares whatsoever (other than interest in the proceeds of sale of such shares of our Company).

General

An application has been made to the [**REDACTED**] of the Stock Exchange for the [**REDACTED**] of, and permission to [**REDACTED**], the Shares underlying any Awards which may be granted pursuant to the RSU Scheme.

Details of the RSU Scheme, including particulars and movements of the RSUs granted during each financial year of our Company, and our employee costs arising from the grant of the RSUs will be disclosed in our annual report.

All reference to Non-voting Ordinary Share under the RSU Scheme (except for references under the clause in relation to the share capital of our Company) shall mean Ordinary Share upon the automatic conversion of Non-voting Ordinary Shares into Ordinary Shares pursuant to the Second Amended and Restated Memorandum and Articles of Association of our Company as and when the context requires, as amended and or restated from time to time, as and where applicable.

RSUs granted

As of the Latest Practicable Date, the Company has granted RSUs with an aggregate of [●] underlying Non-voting Ordinary Share, which [has been] adjusted to [●] underlying Shares after the completion of the Share Subdivision, representing [●]% of the issued Shares immediately upon completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised). Details of the RSUs granted pursuant to the RSU Scheme are set out below:

[●]

OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Group under the laws of the Cayman Islands or PRC.

2. Litigation

As of the Latest Practicable Date, we are not aware of any other litigation or claims 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.

3. Application for [REDACTED]

The Sole Sponsor has made an application on behalf of our Company to the [**REDACTED**] for the [**REDACTED**] of, and permission to [**REDACTED**], the Shares in issue and to be issued or [**REDACTED**] as mentioned in this document.

4. Sole Sponsor

The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules. The fees payable by our Company to the Sole Sponsor for acting as the sponsor for the [**REDACTED**] are US$500,000.

5. No Material Adverse Change

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June, 2023 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

6. Preliminary expenses

Our Company did not incur any material preliminary expense in relation to the incorporation of our Company.

7. Promoter

Our Company has no promoter for the purpose of the Listing Rules. 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.

8. Consents of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

Name	Qualification
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) of the regulated activities as defined under the SFO
KPMG	Certified Public Accountants Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance
Haiwen & Partners	Company's PRC legal advisers as to PRC laws
Jingtian & Gongcheng	Company's PRC legal advisers as to PRC laws
Maples and Calder (Hong Kong) LLP	Company's Cayman Islands legal advisor
Guangdong Guanghe (Dongguan) Law Firm	Company's PRC legal advisers as to the disputes regarding the 2016 Letter of Intent
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
Shenzhen Anzhi Electrical Fire Fighting Safety Inspection Co., Ltd. (深圳市安智電氣消防安全檢測有限公司)	Company's fire safety consultant
Ali Budiardjo, Nugroho, Reksodiputro	Company's Indonesian legal consultants

As of the Latest Practicable Date, none of the experts named above has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Each of Morgan Stanley Asia Limited, KPMG, Haiwen & Partners, Jingtian & Gongcheng, Maples and Calder (Hong Kong) LLP and Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. 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 opinion and/or the references to its name included in this document in the form and context in which it is respectively included.

9. 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 so far as applicable.

10. 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 of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Taxation of holders of Shares

(a) Hong Kong

The sale, purchase and transfer of shares registered with our Hong Kong register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, of the value of the shares being sold or transferred. Profits from dealings in the shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

Under present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of shares in our Company.

(c) Consultation with professional advisors

[**REDACTED**] in the [**REDACTED**] are urged to consult their professional tax advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of our Company, our Directors or the other parties involved in the [**REDACTED**] accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to our Shares.

12. Disclaimer

(a) Save as disclosed in the section headed "History, Reorganization and Corporate Structure" 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 for 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, 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 the section headed "History, Reorganization and Corporate Structure" in this document, our Group had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities.

(c) None of the Directors or the parties listed in "Other Information – 8. Consents of Experts" is:

(i) interested in our promotion, 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 our Company, or are proposed to be acquired or disposed of by or leased to our Company; or

(ii) materially interested in any contract or arrangement subsisting as of the date of this document which is significant to our business.

(d) Our Directors confirm that:

(i) there is no arrangement under which future dividends are waived or agreed to be waived; and

(ii) 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.

(e) Our principal register of members will be maintained by our Principal [**REDACTED**], in the Cayman Islands and our Hong Kong register of members will be maintained by our [**REDACTED**], in Hong Kong. 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**].

(f) All necessary arrangements have been made to enable our Shares to be admitted into [**REDACTED**] for clearing and settlement.

(g) No company within our Group is presently [**REDACTED**] on any stock exchange or [**REDACTED**] on any [**REDACTED**] system.

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:

(a) a copy of each of the material contracts referred to in the section headed "Statutory and General Information – Further Information about our Business – 1. Summary of Material Contracts" in Appendix IV to this document; and

(b) the written consents referred to in the section headed "Statutory and General Information – Other Information – 8. Consents of Experts" in Appendix IV to this document.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **https://www.kkgroup.cn** 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 Accountants' Report of our Group and the report on the unaudited [**REDACTED**] financial information prepared by KPMG, the texts of which are set forth in Appendix I and Appendix II to this document, respectively;

(c) the audited consolidated financial statements of our Company for the three years ended December 31, 2020, 2021, 2022 and the ten months ended October 31, 2023;

(d) the letters from KPMG and the Sole Sponsor relating to the profit estimate, the texts of which are set forth in Appendix IA to this document;

(e) the legal opinion from Haiwen & Partners and Jingtian & Gongcheng, our PRC Legal Advisers, in respect of certain aspects of our Company;

(f) the letters of advice prepared by Maples and Calder (Hong Kong) LLP, our Cayman Islands legal advisor, summarizing certain aspects of the Cayman Islands Companies Act referred to in Appendix III to this document and their view on certain Cayman matters as set out in this document;

(g) the Cayman Islands Companies Act;

(h) the report issued by Frost & Sullivan, the summary of which is set forth in the section headed "Industry Overview" in this document;

(i) the material contracts referred to the section headed "Statutory and General Information – Further Information about Our Business – 1. Summary of Material Contracts" in Appendix IV to this document;

(j) the service contracts and letters of appointment with our Directors referred to in section headed "Statutory and General Information – Further Information about Our Directors and Substantial Shareholders – 2. Particulars of Service Contract and Letters of Appointment" in Appendix IV to this document;

(k) the written consents referred to in the section headed "Statutory and General Information – Other Information – 8. Consents of Experts" in Appendix IV to this document; and

(l) the RSU Scheme.