

SUMMARY

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

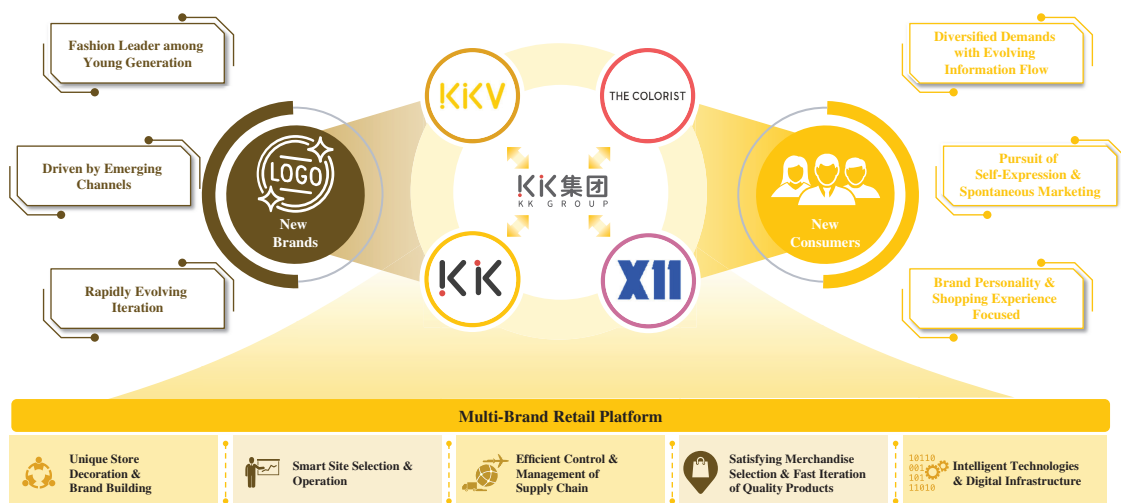
OVERVIEW

We are a well-known specialty retailer of lifestyle products with multiple retail brands enjoying a broad consumer base and market influence. We were one of the top three specialty retailers of lifestyle products in China by GMV in 2022, and the fastest-growing specialty retailer of lifestyle products among the top ten players in China with a GMV CAGR of 88.6% from 2019 to 2022, according to the Frost & Sullivan Report. The market size of the specialty retail of lifestyle products in China reached RMB224.4 billion by GMV in 2022, accounting for 5.5% of the overall market size of the lifestyle product retail in China by GMV in the same year, according to the Frost & Sullivan Report.

As of the Latest Practicable Date, we had 696 stores, covering 31 provinces in China and 22 cities in Indonesia, carrying four self-incubated retail brands, namely KKV, THE COLORIST, X11 and KK Guan.

We are dedicated to providing immersive shopping experiences to our customers through our customer-oriented technology capabilities. Upholding such commitment, we have built a large and loyal consumer base, through which we continue to enhance our brand image. Our success in the ever-changing, highly competitive and fragmented specialty retail of lifestyle product market is attributable to a broad range of factors, including the brand synergies, smart site and merchandise selection, unique interior decoration and layout, data-centric and technology-driven operation, as well as supplier portfolio.

The following diagram illustrates the overall positioning, key driving factors, and strengths of our business.






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OUR RETAIL BRANDS

We have four retail brands, namely (i) KKV, (ii) THE COLORIST, (iii) X11 and (iv) KK Guan. Each retail brand is strategically designed to serve the market needs of different consumer demographics in China.

While each retail brand may differ in their merchandise offerings and target customers, they nevertheless share our common goal of giving satisfying retail shopping experiences to the customers through our best efforts. 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
	2019	Integrated lifestyle retail stores with a wide range of carefully selected merchandise targeting teenagers and young adults	402
THE COLORIST	2019	Beauty retail stores offering wide range of domestic and imported masstige and entry-level luxury cosmetics brands	198
	2020	Pop culture retail stores where fans shop for pop toys and pop art products of the characters they adore	47
	2015	Lifestyle mini marts with an assortment of domestic and imported products in diversified product categories	49

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The following table sets forth our revenue, gross profit and gross profit margin by store brand and the contribution of each brand both in absolute amounts and as percentages of our total revenue for the years and the periods indicated:

Year Ended December 31,										Three Months Ended March 31,															
2020					2021					2022					2023										
Revenue		Gross profit margin		Gross profit margin	Revenue		Gross profit margin		Gross profit margin	Revenue		Gross profit margin		Gross profit margin	Revenue		Gross profit margin		Gross profit margin						
RMB'000	%	RMB'000	%		RMB'000	%	RMB'000	%		RMB'000	%	RMB'000	%		RMB'000	%	RMB'000	%							
(Unaudited)																									
Revenue																									
KKV	834,734	50.7%	252,205	50.5%	30.2%	2,253,379	63.4%	871,433	65.8%	39.0%	2,362,134	66.5%	994,336	69.7%	42.1%	649,764	66.4%	268,976	69.8%	41.4%	1,000,102	69.2%	471,231	70.9%	47.1%
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%	172,726	17.7%	68,554	17.8%	39.7%	235,735	16.3%	116,599	17.5%	49.5%
KK Chan	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%	47,580	4.9%	9,077	2.3%	19.1%	36,116	2.5%	11,130	1.7%	30.8%
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%	74,458	7.6%	32,807	8.5%	44.1%	88,924	6.1%	35,988	5.4%	40.5%
Others ⁽¹⁾	37,716	2.3%	10,795	2.1%	28.6%	50,209	1.5%	4,910	0.4%	9.8%	211,727	6.0%	60,196	4.2%	28.4%	33,431	3.4%	6,187	1.6%	18.5%	85,026	5.9%	30,074	4.5%	35.4%
Total	1,645,904	100.0%	499,712	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%	977,959	100.0%	385,601	100.0%	39.4%	1,445,903	100.0%	665,022	100.0%	46.0%

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.

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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 “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 services income.

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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 the periods indicated:

	Year Ended December 31,						Three Months Ended March 31,					
	2020			2021			2022			2023		
	Revenue		Gross Profit	Revenue		Gross Profit	Revenue		Gross Profit	Revenue		Gross Profit
	RMB'000	%	Margin	RMB'000	%	Margin	RMB'000	%	Margin	RMB'000	%	Margin
<i>(Unaudited)</i>												
Sale of goods												
Self-owned stores	581,845	35.5%	56.2%	2,001,345	56.8%	73.6%	2,270,520	64.0%	48.7%	1,151,591	79.6%	584,033
Franchise stores	946,548	57.5%	25.7%	1,338,195	38.0%	15.9%	970,817	27.3%	13.2%	185,929	12.9%	27,559
Online sales	25,443	1.5%	1.7%	18,243	0.5%	0.5%	149,766	4.2%	34.4%	67,767	4.7%	24,148
Other sales ⁽¹⁾	12,273	0.7%	0.4%	31,966	0.9%	(0.1%)	61,961	1.7%	13.9%	17,259	1.2%	5,925
Subtotal	1,566,109	95.2%	84.0%	3,389,749	96.2%	89.9%	3,453,064	97.2%	35.1%	1,422,546	98.4%	641,665
Sales-based management and consultation service income⁽²⁾	79,795	4.8%	16.0%	134,105	3.8%	134,105	97,887	2.8%	100.0%	23,357	1.6%	23,357
Total	1,645,904	100.0%	30.4%	3,523,854	100.0%	100.0%	3,550,951	100.0%	37.6%	1,445,903	100.0%	665,022

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.

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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,						Three Months Ended March 31,					
	2020			2021			2022			2023		
	Revenue		Gross Profit Margin	Revenue		Gross Profit Margin	Revenue		Gross Profit Margin	Revenue		Gross Profit Margin
	RMB'000	%	%	RMB'000	%	%	RMB'000	%	%	RMB'000	%	%

(Unaudited)

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 Partners.

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OUR RETAIL STORE NETWORK

We have established an extensive and well-managed nationwide retail store network. As of the Latest Practicable Date, we had 696 stores in operation that spread across over 190 cities in China and 22 cities in Indonesia. By offering our customers immersive shopping experiences, we have been successfully reinforcing customer loyalty and brand awareness. The table below sets out the number of our retail stores by store type as of dates indicated:

	As of December 31,			As of March 31,
	2020	2021	2022	2023
Self-owned Stores	132	364	593	595
Wholly owned stores ⁽¹⁾	78	81	547	582
Non-wholly owned stores ⁽¹⁾	54	283	46	13
Franchise Stores	424	357	114	95
Franchise stores with equity investment arrangement ⁽¹⁾	338	276	60	41
Franchise stores without equity investment arrangement	86	81	54	54
Total	556	721	707	690

Note:

- (1) From October 2022 to December 2022, (i) 161 franchise stores set under four joint ventures and (ii) 251 non-wholly owned stores set under 10 non-wholly owned subsidiaries were converted into wholly owned stores through equity acquisitions. In February 2023, (i) 14 franchise stores set under one joint venture and (ii) 25 non-wholly owned stores set under two non-wholly owned subsidiaries were converted into wholly owned stores through equity acquisitions. 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.” See “Business — Self-owned Stores and Franchise Stores.”

OUR COMPETITIVE STRENGTHS

We believe that our business success is a product of our continuous effort in maintaining and improving the following competitive strengths:

- A fast-growing and well-known specialty retailer of lifestyle products with multiple retail brands and a broad consumer base;
- A consumer-centric specialty retailer of lifestyle products with deep consumer insights and a large group of loyal consumers;
- Proven ability to incubate and scale new retail brands with continuous innovation;
- Data-centric and technology-driven systematic retail operation to achieve operational efficiency;
- Our capabilities in maintaining a stable, collaborative and large supplier network; and
- Visionary founding team supported by an innovative and experienced management team.

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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 curated product portfolio;
- Further optimize our operational efficiency through data-driven technology;
- Enhance our existing brand portfolio and launch new retail brands, with a focus on the unmet demands of our target consumer base;
- Promote online sales; and
- Expand into global markets to gain international presence.

OUR SUPPLIERS AND CUSTOMERS

Our suppliers include Third Party Brand Partners and OEM and ODM contractors. As of March 31, 2023, we sourced merchandise locally and globally from 1,173 Third Party Brand Partners, and engaged 188 OEM and ODM contractors for the manufacturing of our self-owned brand merchandise. In 2020, 2021 and 2022 and the three months ended March 31, 2023, the total amount of purchases from our five largest suppliers was RMB330.7 million, RMB220.6 million, RMB146.8 million and RMB40.4 million, which accounted for approximately 18.1%, 7.2%, 6.6% and 6.4% of our total purchases, respectively. See “Business — Our Suppliers and Raw Materials.”

Our customers mainly include (i) our franchisees who are direct customers of our franchise stores and (ii) retail customers in our self-owned stores. In 2020, 2021 and 2022 and the three months ended March 31, 2023, revenue generated from our five largest customers was RMB367.4 million, RMB723.9 million, RMB624.3 million and RMB154.8 million, accounting for approximately 22.3%, 20.5%, 17.6% and 10.7% 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.

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	Year Ended December 31,			Three Months Ended March 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	977,959	1,445,903
Cost of sales	(1,146,191)	(2,200,332)	(2,125,422)	(592,358)	(780,881)
Gross profit	499,713	1,323,522	1,425,529	385,601	665,022
Other income	34,888	61,194	62,260	10,582	7,034
Selling and distribution expenses.	(395,250)	(1,097,483)	(1,313,170)	(321,470)	(422,018)
Administrative and other operating expenses	(281,894)	(524,739)	(497,454)	(112,584)	(118,887)
(Loss)/profit from operations	(142,543)	(237,506)	(322,835)	(37,871)	131,151
Finance costs	(49,152)	(91,511)	(103,474)	(24,939)	(25,407)
Share of (losses)/profits from joint ventures	(16,170)	(32,304)	(81,689)	(4,546)	4,647
Fair value changes of financial liabilities measured at fair value through profit or loss (“FVTPL”) ⁽¹⁾	(1,842,514)	(5,356,803)	489,247	116,180	(4,963)
(Loss)/profit before taxation	(2,050,379)	(5,718,124)	(18,751)	48,824	105,428
Income tax	33,172	36,773	80,615	10,783	(27,774)
(Loss)/profit for the year/period	(2,017,207)	(5,681,351)	61,864	59,607	77,654
Attributable to:					
Equity shareholders of our Company	(2,016,324)	(5,625,587)	90,595	73,348	73,563
Non-controlling interests	(883)	(55,764)	(28,731)	(13,741)	4,091

Note:

- (1) Financial liabilities measured at FVTPL represented the fair value changes of the convertible redeemable preferred shares issued by our Company and the redemption liabilities of ordinary shares issued by Guangdong Kuaike, and relate to changes in the valuation of our Group. Fair value changes of the convertible redeemable preferred shares and the redemption liabilities do not directly relate to our ability to generate revenue from our daily operations, and we do not expect to record any further fair value changes of the convertible redeemable preferred shares as such convertible redeemable preferred shares will be re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares upon the [REDACTED]. Based on the factors above, our net liability position would turn into net assets position upon [REDACTED].

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

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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,			Three Months Ended March 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	59,607	77,654
Adjusted for:					
Fair value changes of financial liabilities measured at FVTPL . . .	1,842,514	5,356,803	(489,247)	(116,180)	4,963
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net (loss)/profit for the year/period (a non-HKFRS measure)	(171,380)	(303,887)	(412,276)	(51,058)	85,948
	Year Ended December 31,			Three Months Ended March 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)	(51,058)	85,948
Adjusted for:					
Income tax	(33,172)	(36,773)	(80,615)	(10,783)	27,774
Depreciation and amortization	222,940	472,654	655,068	161,315	226,471
Finance costs	49,152	91,511	103,474	24,939	25,407
Interest income	(30,435)	(45,064)	(18,273)	(5,744)	(1,284)
Adjusted EBITDA for the year/period (a non-HKFRS measure)	37,105	178,441	247,378	118,669	364,316

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 — Our Loss from Operations.”

We recorded adjusted net loss (a non-HKFRS measure) of RMB51.1 million in the three months ended March 31, 2022 while we recorded adjusted net profit (a non-HKFRS measure) of RMB85.9 million in the three months ended March 31, 2023, primarily because we recorded profit from operations of RMB131.2 million in the three months ended March 31, 2023, compared to loss from operations of RMB37.9 million in the three months ended March 31, 2022.

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Our Loss from Operations

We recorded loss from operations of RMB142.5 million, RMB237.5 million and RMB322.8 million in 2020, 2021 and 2022, respectively. The increase in loss from operations from 2020 to 2022 was primarily due to the following factors:

- the COVID-19 pandemic; and
- our store- and headquarters-level investments to expand our nationwide store network.

See “Financial Information — Our Loss from Operations.”

Loss/Profit for the Year/Period

Our loss for the year was RMB2,017.2 million and RMB5,681.4 million in 2020 and 2021, respectively, while we had profit for the year of RMB61.9 million in 2022. The increase in our loss for the year from 2020 to 2021 was primarily attributable to (i) the increase in loss from operations and (ii) the fair value loss of RMB5,356.8 million of financial liabilities measured at FVTPL in 2021 compared to the fair value loss of RMB1,842.5 million in 2020, which primarily reflected changes in our valuation. We had profit for the year in 2022 primarily because of the fair value gain of RMB489.2 million of financial liabilities measured at FVTPL in 2022. See “Financial Information — Description of Select Combined Statements of Comprehensive Income Line Items — Fair Value Changes of Financial Liabilities Measured at FVTPL.”

Our profit for the period increased from RMB59.6 million in the three months ended March 31, 2022 to RMB77.7 million in the three months ended March 31, 2023, primarily because we had profit from operations of RMB131.2 million in the three months ended March 31, 2023 compared to loss from operations in the three months ended March 31, 2022.

PATH TO PROFITABILITY

We believe the specialty retail of lifestyle product 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 immersive shopping experiences. According to the Frost & Sullivan Report, the market size of the specialty retail of lifestyle products by GMV has experienced a fast expansion in recent years, and is expected to grow to RMB526.0 billion in 2027 from RMB224.4 billion in 2022, representing an estimated CAGR of 18.6%. As one of the top three specialty retailers of lifestyle products by GMV in 2022 and the fastest growing specialty retailer of lifestyle products in China with a GMV CAGR of 88.6% from 2019 to 2022, we are uniquely positioned 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 — Our Loss from Operations.” However, we strongly believe that our distinctive brand image, carefully selected merchandise portfolio, and satisfying shopping experience still have and will continue to attract customers and cater for the strong demand from the market.

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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 39.1% in average monthly GMV per store from RMB559.6 thousand in the three months ended March 31, 2022 to RMB778.2 thousand in the three months ended March 31, 2023. Our profitability improved significantly as we recorded profit from operations of RMB131.2 million in the three months ended March 31, 2023, compared to loss from operations of RMB37.9 million in the three months ended March 31, 2022.

Going forward, we expect to improve our financial performance and achieve profitability in the near future, 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 March 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	3,257,314
Total current assets	1,213,077	2,764,240	1,901,786	1,961,448
Total assets	3,114,368	5,658,490	5,399,094	5,218,762
Total non-current liabilities	(4,865,698)	(12,516,953)	(12,349,843)	(12,198,826)
Total current liabilities	(958,479)	(1,313,682)	(1,412,037)	(1,351,641)
Total liabilities	(5,824,177)	(13,830,635)	(13,761,880)	(13,550,467)
Net current assets	254,598	1,450,558	489,749	609,807
Total deficit attributable to equity shareholders	(2,747,495)	(8,350,967)	(8,394,716)	(8,346,505)
Non-controlling interests	37,686	178,822	31,930	14,800
Net liabilities	(2,709,809)	(8,172,145)	(8,362,786)	(8,331,705)

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 March 31, 2023, our financial liabilities measured at FVTPL represented 68.2%, 80.4%, 77.2% and 78.5% 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].

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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 had an adverse impact on our consolidated statements of profit or loss and other comprehensive income. Our net loss 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 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. 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. See “Business — Store Network Optimization Initiatives” for more information about our acquisition of non-controlling interests. Our net liabilities decreased from RMB8.4 billion as of December 31, 2022 to RMB8.3 billion as of March 31, 2023, mainly because we had net profit of RMB77.7 million for the three months ended March 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 RMB609.8 million as of March 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 RMB3.3 billion as of March 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 RMB12.2 billion as of March 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.”

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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,			Three Months Ended March 31,	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(Unaudited)</i>				
Operating cash flows before changes in working capital	43,875	237,424	301,402	137,519	330,846
Changes in working capital	(357,821)	(824,811)	(2,227)	(55,711)	281,006
Cash (used in)/generated from operations . . .	(313,946)	(587,387)	299,175	81,808	611,852
Income tax paid.	(124)	(2,314)	(3,901)	(9)	—
Net cash (used in)/generated from operating activities	(314,070)	(589,701)	295,274	81,799	611,852
Net cash (used in)/generated from investing activities	(525,590)	(399,236)	(46,720)	(122,699)	(96,119)
Net cash (used in)/generated from financing activities	778,202	1,289,542	(480,038)	(18,503)	(196,746)
Net increase/(decrease) in cash and cash equivalents	(61,458)	300,605	(231,484)	(59,403)	318,987
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	(991)	(538)
Cash and cash equivalents at the end of the year/period	168,294	465,707	248,073	405,313	566,522

We recorded net cash generated from operating activities in the three months ended March 31, 2023, primarily attributable to our net profit before taxation of RMB105.4 million, as adjusted by certain non-cash and non-operating items, mainly consisting of (i) depreciation of right-of-use assets of RMB168.7 million, and depreciation of property, plant and equipment of RMB51.2 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, primarily attributable to our net loss before taxation of RMB18.8 million, as adjusted by certain non-cash and non-operating items, mainly consisting of (i) depreciation of right-of-use assets of RMB479.5 million, and to a lesser extent, depreciation of property, plant and equipment of RMB171.2 million, and (ii) changes in working capital, mainly driven by increase in trade and other receivables and decrease in inventories.

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.

SUMMARY

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.

We expect our net operating cash outflows position to improve concurrently with our profitability. See “Financial Information — Path to Profitability.”

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,			Three Months Ended/As of March 31,
	2020	2021	2022	2023
Current ratio ⁽¹⁾	1.27	2.10	1.35	1.45
Revenue growth	254.9%	114.1%	0.8%	47.8%
Gross profit margin	30.4%	37.6%	40.1%	46.0%
Operating (loss)/profit margin ⁽²⁾	(8.7%)	(6.7%)	(9.1%)	9.1%
Adjusted EBITDA margin (a non-HKFRS measure) ⁽³⁾	2.3%	5.1%	7.0%	25.2%

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]. Among these risks, we believe the following to be relatively material:

- 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 the changing consumer preference towards the merchandise we offer in our sales channels in a timely manner.
- Failure to maintain good relationships with or secure competitive terms from brand companies may materially and adversely affect our profitability, business and prospects.

SUMMARY

- 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.
- Unauthorized use of our Third Party Brand Partners’ brands or allegations against us regarding the merchandise we sell may adversely affect 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 fail to protect our intellectual property rights, our business, financial conditions and results of operations would be severely harmed.
- If we are unable to provide satisfying customer experiences, our business and reputation may be materially and adversely affected.
- We may experience complaints from our customers, or adverse publicity involving our merchandise, our service or our prices.
- We incurred loss for the year in the past, and we may continue to experience significant loss for the year in the future.
- We recorded net operating and investing cash outflow in 2020 and 2021 and net liabilities during the Track Record Period.
- 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.

SUMMARY

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]

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] commissions, 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 three years to continue developing our store network and further deepening our market penetration;

SUMMARY

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

[REDACTED]

Our [REDACTED] mainly include [REDACTED] fees and commissions 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], 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].

SUMMARY

RECENT DEVELOPMENTS

From March 31, 2023 to the Latest Practicable Date, 20 KKV stores, 24 THE COLORIST stores, two X11 stores and one KK Guan store were newly opened, comprising: (i) three stores in tier-one cities in China, (ii) 35 stores in tier-two and lower tier cities in China, and (iii) nine stores in Indonesia. During the same period, we closed five KKV stores, 22 THE COLORIST stores, two X11 stores and 12 KK Guan stores in China. 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.”

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.”

On [●], our Company [has 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.

Impact of COVID-19 Pandemic on Our Business

An outbreak of a novel strain of coronavirus named COVID-19 that began since the end of December 2019 has 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 compared to the same periods in 2019.

In 2020, approximately 28.9% of our retail stores as of December 31, 2020 in 77 cities in China had temporary store closure for 26.2 days on average. Approximately 71% of our stores in China were closed for seven or more days in February 2020 when the COVID-19 broke out in China. For our 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 new waves of the COVID-19 pandemic, in particular its Delta and, most recently, the Omicron variant, from time to time in certain regions across China since 2021, we observed temporary drop in sales for stores in those regions, primarily as a result of pandemic control measures implemented there. In particular, approximately 12.5% of our retail stores 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, including but not limited to, Xi'an in January and April 2022, Shenzhen in March 2022, Jilin in March and April 2022, Shanghai from late March to early June 2022, Beijing in May and November 2022, Hainan in August 2022, Chengdu in September 2022, Hohhot, the capital of Inner Mongolia, in October and November 2022, as well as Guangzhou and Chongqing in November 2022. The pandemic control measures in these regions temporarily and adversely impacted our operations and logistics as approximately 83.3% of our retail stores as of December 31, 2022 located in 163 different cities in China were temporarily closed for 27.7 days in 2022.

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In particular, our operations in Shenzhen were temporarily interrupted due to the outbreak of the Omicron variant in early March 2022, and resumed normal since April 2022. As a wave of infections caused by the Omicron variants emerged in Shanghai since late March 2022, substantially all of our stores and our national distribution center in Shanghai were temporarily closed for more than two months from late March 2022 to early June 2022. At the same time, a large majority of our stores in Beijing were temporarily closed in May and November 2022. Our average monthly GMV per store at overall group level decreased from 2021 to 2022 primarily due to decrease in 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 had been gradually eased. On January 2, 2023, all of our stores 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 operation were back to normal.

To the best knowledge of our Directors, since March 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.