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 performance of our stores 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 we offer in our stores 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. Although we leverage our deep engagement with customers to anticipate and react to industry trends and consumer preferences and behavior, 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 Partners. The success of our business and our growth depend to a significant extent on our relationships with the Third Party Brand Partners. As of March 31, 2023, we sourced merchandise locally and globally from 1,173 Third Party Brand Partners. 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 Partners, 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 Partners 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 Partners 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 Partners' willingness and ability to supply sufficient quantities of merchandise to our stores. The inability or unwillingness of our Third Party Brand Partners to supply merchandise to us at acceptable prices, or changes in the supply polices of our Third Party Brand Partners, could lead to a decrease in our profit. Any negative developments in our relationships with our Third Party Brand Partners 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 Partners 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 Partners. If our relationship with any of these Third Party Brand Partners deteriorates, our results of operations and prospects may be materially and adversely affected.

Furthermore, as of March 31, 2023, we were the exclusive distributor in China for 15 third party brands. If we lose our exclusive distribution rights with these Third Party Brand Partners, 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 Partners companies 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 our stores.

We are constantly reviewing our sales performance data, both by sales channels and by brand. We rapidly grew our network of our stores during the Track Record Period, and managed to increase number of retail stores from 556 as of December 31, 2020 to 690 as of March 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, as well as the pandemic control measures carried out in different cities in response to the COVID-19 pandemic or its variants impact, 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 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 Partners 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 Partners 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 Partners 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 Partners is critical to the growth of our business. Our distributorship agreements with our Third Party Brand Partners, 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 Partners 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 Partners which could affect our ability to secure sufficient supply of merchandise for our business. In the event that any of our Third Party Brand Partners 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 Partners' brands or allegations against us regarding the merchandise we sell may adversely affect our business.

We sell merchandise supplied by our Third Party Brand Partners in our stores. 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 our 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 replacement 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 our 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 in 2020 and 2021 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, RMB81.8 million and RMB611.9 million in 2020, 2021 and 2022 and the three months ended March 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, RMB122.7 million and RMB96.1 million in 2020, 2021 and 2022 and the three months ended March 31, 2022 and 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 RMB8,331.7 million as of December 31, 2020, 2021 and 2022 and March 31, 2023, respectively. Our net liability position during the Track Record Period was primarily due to the changes in financial liabilities measured at FVTPL in connection with our rounds of financing by issuing convertible redeemable preferred shares from series A to series F.

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 March 31, 2023, we had 4,330 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 fair value changes of our investments in wealth management products may materially and adversely affect our results of operations and financial condition.

During the Track Record Period, our other investments consisted primarily of wealth management products that we purchased from reputable commercial banks or licensed financial institutions, with low or low-to-medium risks and a short term of no more than one year. As of March 31, 2023, our investments in wealth management products, which were measured at FVPTL, had a balance of nil. In 2020, 2021 and 2022 and the three months ended March 31, 2023, net realized and unrealized gains on such investments were nil, RMB1.9 million, RMB3.1 million and nil, respectively. See "Financial Information — Discussion of Certain Statements of Financial

Position Items — Current Assets and Current Liabilities — Other Investments." The methodologies that we use to assess the fair value of our investments in wealth management products involve a significant degree of management judgment, and are inherently uncertain. In addition, we are exposed to credit risks in relation to our short-term investments, which may adversely affect the net changes in their fair value. We cannot assure that market conditions and regulatory environment will create fair value gains on our investments in wealth management products, or we will not incur fair value losses on such investments in the future. If we incur such fair value losses, our results of operations, financial condition and business prospects may be adversely affected.

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 three months ended March 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 RMB116.2 million and a loss of RMB5.0 million, respectively. As of December 31, 2020, 2021 and 2022 and March 31, 2023, financial liabilities measured at FVTPL were RMB3,972.2 million, RMB11,117.4 million, RMB10,628.2 million and RMB10,633.1 million, respectively. See note 26 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 March 31, 2023, our investment in equity securities, which was measured at FVPTL, was nil, RMB10.0 million, RMB10.6 million and RMB10.6 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 27(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 March 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 February 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 RMB62.8 million as of December 31, 2020, 2021 and 2022 and as of March 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 February 2023, we entered into equity transfer agreements with 16 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) 11 minority shareholders who transferred 49% of the shares in our 12 non-wholly owned subsidiaries respectively to us, increasing our equity interest in the foregoing 17 companies to 100%. As a result of the acquisitions of the foregoing 17 companies, 175 franchise stores with equity investment arrangement and 276 non-wholly owned stores were converted into wholly owned stores as of March 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 specialty retailers of lifestyle products in the highly competitive and fragmented specialty retail of lifestyle product market in China.

We compete with other specialty retailers of 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 specialty retailers of lifestyle products for sale of merchandise under the brands that we offer. 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 March 31, 2023, we had 595 self-owned stores and 95 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 equity investment related documentation or business registration work for a certain number of franchise 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 equity 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 equity investment related documentation required for business registration for a certain number of franchise stores. See "Business — Self-owned Stores and Franchise Stores — Equity Investment to Franchise Stores." If we are unable to complete equity investment related documentation or business registration work, 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 equity investment related documentation or business registration work, 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 equity investment related documentation and business registration work 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 which set up these stores 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 March 31, 2023, we set up nine, nine, 11 and 10 joint ventures with the relevant franchisees under the equity investment arrangement. See "Business — Self-owned Stores and Franchise Stores — Equity Investment to Franchise Stores." As of December 31, 2020, 2021 and 2022 and March 31, 2023, we recorded investment in joint ventures of RMB51.4 million, RMB119.2 million, RMB38.4 million and RMB35.0 million, respectively. In 2020, 2021 and 2022 and the three months ended March 31, 2022 and 2023, we recorded share of losses from joint ventures of RMB16.2 million, RMB32.3 million, RMB81.7 million and RMB4.5 million, and share of profit from joint ventures of RMB4.6 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 three months ended March 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, RMB150.2 million and RMB183.2 million, representing 11.0%, 11.8%, 15.4%, 15.4% and 12.7% 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 three months ended March 31, 2023, our revenue derived from our five largest customers was 22.3%, 20.5%, 17.6% and 10.7% of our total revenue, respectively. Our revenue attributable to our largest customer in each year and period of the Track Record Period was 5.2%, 12.8%, 9.9% and 7.5%, 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 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 or take actions to exploit their comparably superior bargaining position in negotiating the terms of agreements. 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 replacement 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 unexpected newly 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 221 properties we leased with defective titles, among which, (i) 46 leased properties with an aggregate GFA of approximately 61,840.2 sq.m. failed to obtain relevant ownership certificates or land use right certificates from the lessors, and 12 leased properties with an aggregate GFA of approximately 11,396.2 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), 147 leased properties with an aggregate GFA of approximately 146,250.1 sq.m. were under mortgage; and (iii) the remaining 16 leased properties with an aggregate GFA of approximately 13,931.4 sq.m. existed inconsistencies between actual use and planned use specified in the property ownership certificate. As of the same date, our franchise stores leased 70 properties with the total GFA of approximately 48,668.0 sq.m., among which there were 37 properties with defective titles with an aggregate GFA of approximately 23,617.2 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 569 leased properties in China, primarily due to the difficulty of procuring our lessors' cooperation required to register such leases. Although failure to register does not in itself invalidate the 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. 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 February 2023, we converted 175 franchise stores with equity investment arrangement and 276 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 March 31, 2023, our inventories accounted for approximately 61.1%, 39.8%, 48.5% and 37.3%, respectively, of our total current assets. In 2020, 2021 and 2022 and the three months ended March 31, 2023, our inventory turnover days were 196 days, 154 days, 175 days and 96 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. Although we normally have recourse against others for losses caused by defective products, 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 our 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 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.

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 March 31, 2023, our trade and other receivables were RMB635.3 million, RMB1,123.5 million, RMB833.1 million and RMB828.1 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 March 31, 2023, amounts due from franchisees were RMB91.4 million, RMB190.0 million, RMB60.9 million and RMB36.3 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 decreased to nil 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 March 31, 2023, loans to franchisees were RMB272.0 million, RMB81.9 million, RMB9.5 million and RMB6.3 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 2020 and 2021 and the three months ended March 31, 2023, we recognized impairment losses for amounts due from franchisees of RMB14.0 million, RMB7.0 million and RMB6.5 million, 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 2022, we recognized reversal of impairment losses of RMB0.5 million along with the settlement of the relevant balance of amounts due from franchisees.

In 2020, 2021 and 2022 and the three months ended March 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 March 31, 2023, our deferred tax assets were RMB68.2 million, RMB111.8 million, RMB200.7 million and RMB181.8 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 our stores and for our 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. Although we carry business interruption insurance, we cannot assure you that we will always be able to claim under that insurance 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, though we will closely monitor and assess any development in the rule-making process. 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 our 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 our stores. As of March 31, 2023, we engaged six logistics service providers. 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 our 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 to operate our stores. 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 March 31, 2023, all of our retail stores 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.

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 three months ended March 31, 2022 and 2023, the total amount of government grants we received was approximately RMB1.7 million, RMB1.7 million, RMB39.4 million, RMB0.9 million and RMB5.7 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, although we believe that government grants are provided by authorities in compliance with current policies, laws and regulations in China, 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. Although we had not experienced any labor shortage as of the Latest Practicable Date, 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 three months ended March 31, 2022 and 2023, staff costs were RMB184.9 million, RMB460.0 million, RMB518.9 million, RMB135.4 million and RMB174.2 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 three months ended March 31, 2023, we made provisions of RMB7.9 million, RMB29.9 million, RMB12.7 million and RMB2.3 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 lifted on January 8, 2023.

The COVID-19 pandemic disrupted the operations of our business partners, including Third Party Brand Partners, 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. In addition, our business operations could be disrupted if any of our employees contracts COVID-19 or any other epidemic disease, since our employees can suffer from symptoms of COVID-19 such as persistent pain or pressure in the chest, inability to wake or stay awake or trouble breathing, for weeks.

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 Cracking Down on Illegal Securities Activities in accordance with the Law (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**

Offerings"), 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 [**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 [**REDACTED**]. Any failure to complete filings procedures may have a material adverse effect on the [**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, have 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 a company incorporated in the Cayman Islands with substantially all of our assets 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 other third parties and may not be accurate or reliable, and statistics in the document provided by Frost & Sullivan are subject to assumptions and methodologies set forth in the "Industry Overview" section of this document.

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 or industry associations, or an industry report prepared by Frost & Sullivan and commission by us. Although we have taken reasonable care in extracting those facts, forecasts and statistics, they have not been independently verified by us, the Joint Sponsors, 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.