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## BUSINESS

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### OUR MISSION AND VISION

Our mission is to take advantage of technology empowerment to make study a pleasant experience.

We strive to become a leading smart learning device service provider in China specializing in the provision of all-in-one self-directed learning solutions for students to improve learning efficiency, and the provision of all-in-one smart classroom solutions for schools to improve precise education.

### OVERVIEW

We are a smart learning device service provider in China, focusing on the design, development, manufacturing and selling of a broad range of smart learning devices embedded with comprehensive digital educational resources for China’s primary and secondary school students, their parents and school teachers. Established in 1999, we have become a major technology-powered smart learning device service provider with an established education ecosystem in China. Our education ecosystem features comprehensive digital educational resources enabled by a wide range of smart learning devices, covering the full spectrum of application for various education scenarios and offering an innovative learning experience. Our Readboy brand was recognized as a Famous Trademark in Guangdong Province and a reputable technology-powered education brand in China, including the Parents’ Most Trusted Education Brand for Kids in 2018 and the Technical Leading Education Brand in 2018 both recognized by Tencent News Annual Education Event, the Most Trusted Education Brand in 2019 awarded by Xinhua Net Education Forum.

We design, develop, manufacture and market a broad range of smart learning devices, including personal student tablets, smart classroom solutions, wearable products and a number of smart accessories. Our smart learning devices are embedded with comprehensive digital educational resources, mainly synchronous lesson preparation, review and learning materials, which are supplemental to the in-school education for primary and secondary school students in China. During the Track Record Period, a substantial majority of our revenue was derived from the sales of our smart learning devices. Currently, the end users can only access our device-level embedded digital educational resources through our smart learning devices and we do not separately charge additional fees for such embedded digital educational resources. Moreover, in that we have accumulated our brand recognition for high quality and diverse digital educational resources, since 2019, we have established cooperative arrangements with third parties, usually online content distribution platforms or content streaming device systems with education-focused channels, under which we licensed certain educational resources to such third parties, on a non-exclusive basis, to display on their platforms and share service fees charged from their users. We endeavor to leverage the advanced technologies to create a flexible, efficient, effective, interactive and personalized learning experience. During the Track Record Period, the total shipments of our personal student tablets were 456.9 thousand units, 484.6 thousand units and 458.8 thousand units in 2019, 2020 and 2021, respectively, and revenue derived from such products amounted to RMB541.5 million, RMB664.9 million and

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RMB705.0 million, respectively, over the same periods. During the Track Record Period, the total device shipments of our smart classroom solutions were 7.1 thousand units, 21.3 thousand units and 19.9 thousand units in 2019, 2020 and 2021, respectively. Revenue derived from smart classroom solutions amounted to RMB8.2 million, RMB22.3 million and RMB23.6 million, respectively, in 2019, 2020 and 2021.

According to the Frost & Sullivan Report, we ranked second among China’s smart learning device service providers in terms of total retailing market value and ranked fifth among China’s smart learning device service providers in terms of total device shipment in 2021.

Through our continuous development over the past two decades, we have built up high barriers to entry. We have accumulated in-depth industry insights and experience with respect to educational resource research and development. Led by Readboy Institute of Education Technology, our in-house educational content research and development center, we released pre-recorded video resources lasting for over 11,270 hours as of the Latest Practicable Date.

Moreover, we are one of the first movers in China to develop and offer smart classroom solutions to preliminary and secondary schools, which provide a connected and interactive learning environment for school teachers and students and aim to enhance the way of in-school teaching and learning digitally, promoting teaching quality and efficiency.

In addition, we have established an extensive, well-managed nationwide offline distribution network with deep penetration. Our distributors not only market and sell our products, especially to places where educational resources are typically inadequate, but also deliver customer services. Face-to-face communications provide better experience for users to understand our products and an effective way to convey our philosophy of education, which facilitates us in effectively acquiring end users and maintaining a large, loyal and expanding user base. We identify and promote a certain number of offline points of sales as our 4S experience stores, which typically have an independent physical storefront and provide a suite of upgraded and customized services. “4S” refers to sales, services, support and survey. As of the Latest Practicable Date, we contracted 132 offline distributors who controlled a total of 4,523 points of sales located in 344 cities covering 31 provinces and autonomous administrative regions, including municipalities, across China.

We believe that technology has been, and will continue to be, crucial to our success. We have continuously developed and applied various advanced technologies to our smart learning devices. Our high quality, multi-functional and professional products are contributable to differentiate us from our competitors and retain a loyal user base. We also endeavor to strengthen our IT technologies and infrastructures, which ensure our digitalized operations.

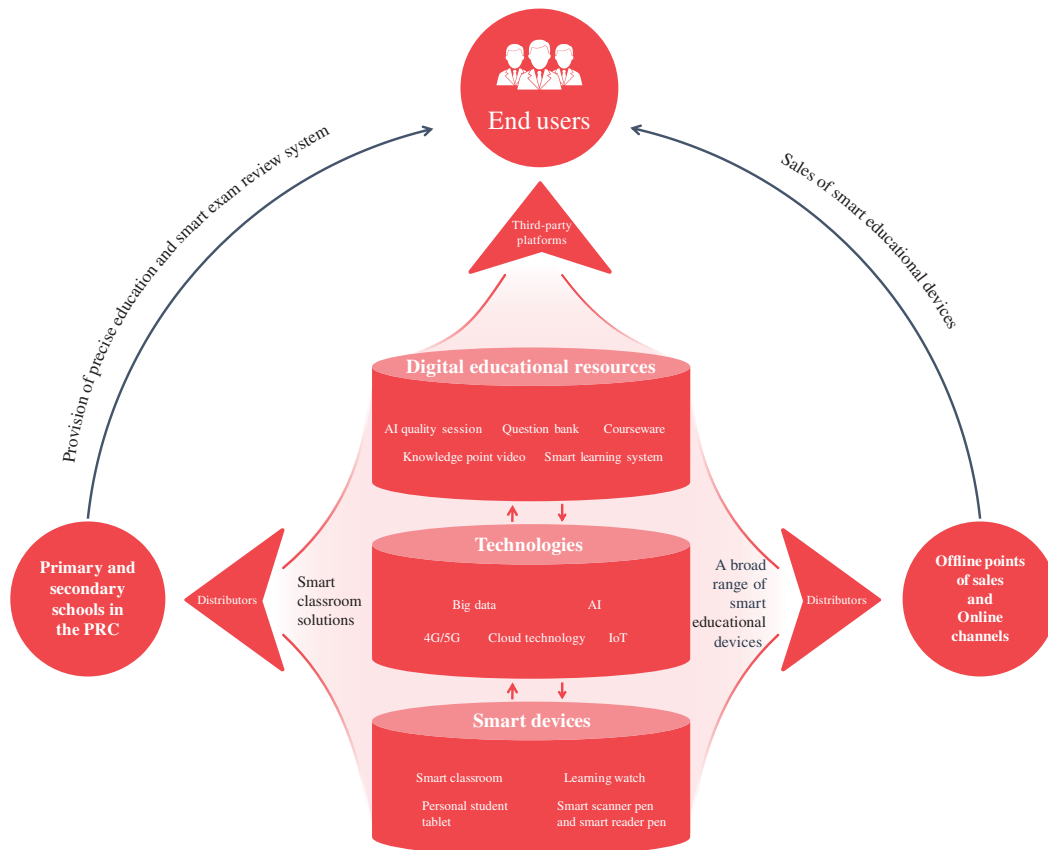
Our smart learning devices are developed and designed by us, and we currently operate one production and assembly facility located in Zhongshan, Guangdong Province with a total gross floor area of approximately 30,700 sq.m.

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We have maintained stable development during the Track Record Period and we consider we are well positioned to continue to capitalize on the growing smart learning device service industry in China. Our revenue increased by 9.6% from RMB669.9 million in 2019 to RMB734.0 million in 2020. Over the same period, our net profit increased by 32.5% from RMB69.4 million in 2019 to RMB92.0 million in 2020. Our revenue further increased by 10.8% from RMB734.0 million in 2020 to RMB813.2 million in 2021, while net profit decreased by 10.7% from RMB92.0 million in 2020 to RMB82.1 million in 2021. Without considering the impact of the [REDACTED] expenses and changes in fair value of financial liabilities at fair value through profit or loss in connection with the shares we issued to our [REDACTED] Investors, our adjusted net profit, a non-HKFRS measure, would have decreased by 16.3% from RMB92.0 million in 2020 to RMB77.0 million in 2021.

### Our Technology-powered Education Ecosystem

We have developed an integrated technology-powered education ecosystem, aiming to offer all-in-one smart learning device service with high quality and diverse digital educational resources catering to the learning needs of primary and secondary school students, their parents and school teachers in China. Our education ecosystem is able to fulfill the full spectrum of applications for various education scenarios and offering an innovative learning experience.



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### OUR COMPETITIVE STRENGTHS

#### **A China’s major smart learning device service provider, building a complete education ecosystem with multiple growth potentials**

Established in 1999, we have become a China’s major smart learning device service provider with an established education ecosystem. According to the Frost & Sullivan Report, we ranked second among China’s smart learning device service providers in terms of total retailing market value and ranked fifth among China’s smart learning device service providers in terms of total device shipment in 2021. Benefiting from our visionary development strategies and our strong belief in the prosperous future of China’s smart learning device service industry and its increasing important role in the overall education industry, we are one of the first movers in smart learning device service industry in China. We introduced our first Readboy reading machine in 2004, followed by a number of innovative learning devices that were well accepted by the market. Our products have won us numerous prizes and awards for their quality and functionality. Our Readboy brand was recognized as a Famous Trademark in Guangdong Province and a reputable technology-powered education brand in China, including the Parents’ Most Trusted Education Brand for Kids in 2018 and the Technical Leading Education Brand in 2018 both recognized by Tencent News Annual Education Event, the Most Trusted Education Brand in 2019 awarded by Xinhua Net Education Forum.

To capitalize on the evolving market trends and emerging needs arising from China’s smart learning device service industry, we leveraged our industry experience in the past two decades and have innovated our business operations to establish an integrated technology-powered education ecosystem, featuring comprehensive digital educational resources enabled by smart learning devices, various education scenarios, and innovative learning experience.

- ***Comprehensive, high quality digital educational resource offering enabled by a wide range of smart learning devices.*** We design, develop, manufacture and distribute a broad range of smart learning devices which provide primary and secondary students with a flexible, efficient, effective, interactive and personalized learning experience. We also research, develop and offer comprehensive, high quality digital educational resources, which are mainly synchronous lesson preparation, review and learning materials, which are supplemental to the in-school education for primary and secondary school students in China. Our digital educational resources have covered core school subjects for all grades in primary and secondary schools with a wide range of academic and interest educational resources targeting students in all age groups from 6 to 18 years old. The comprehensive offerings of offline hardware devices combined with digital educational resource have enabled us to foster user stickiness and high referral rate. Given the strong continuity of primary to secondary school education, we contemplate that our existing economies of scale have provided a variety of cross-selling and upselling opportunities over time along with the academic growth of these students.

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- ***Full spectrum of applications for various education scenarios.*** We strive to offer smart learning devices that cater to the learning needs across multiple education scenarios and create a comfortable and efficient learning environment anytime anywhere. For instance, our self-developed smart classroom solutions are committed to providing a digitalized, connected and interactive learning environment covering all major learning and teaching aspects of school education in primary and secondary schools. Advanced digital teaching tools, paperless teaching material preparation and distribution, and AI-powered student performance review systems, all of these increase teachers’ day-to-day teaching efficiency and bring up a more engaging and personalized learning environment for students. Additionally, we develop diverse digital educational resources, available in the formats of pre-installed courseware and pre-recorded video resources, that are designed to supplement the regular school curricula and to help the students to further improve their learning skills and academic performance. Our smart wearable devices, on the other hand, are embedded with Chinese and English Word of the Day to help vocabulary study during fragmentary time. Such full spectrum of product and service offerings are able to attract students in all age groups, driving cross-selling and upselling opportunities as they grow in age and academic performance. Our ability to identify underserved education scenarios and constantly develop adaptive educational content and smart devices has well positioned us to further gain a full access to the market opportunities arising from the smart learning device service industry.
- ***Innovative and integrated learning experience.*** Our ecosystem offers all-in-one educational services, enabling us to deliver innovative learning experience. We rely on the extensive offline distribution network to distribute products and deliver customer services and communications. We believe face-to-face communication in offline stores provides better experience for users to understand our products and an effective way to convey our philosophy of education, which facilitates us in effectively acquiring end users and maintaining a large, loyal and expanding user base. As of the Latest Practicable Date, we contracted 132 offline distributors who controlled a total of 4,523 points of sales located in 344 cities covering 31 provinces and autonomous administrative regions, including municipalities, across China. We have accumulated over 5.4 million registered users as of the Latest Practicable Date, and by April 2022, our MAU amounted to over 1.4 million in the past 12 months.

Our success has been, in part, attributable to the emerging market opportunities in China’s smart learning device service industry. According to the Frost & Sullivan Report, the total market size of China’s smart learning device service market increased from RMB28.1 billion in 2017 to RMB65.9 billion in 2021, representing a CAGR of 23.7%. It is expected to further increase to RMB145.0 billion in 2026, representing a CAGR of 17.1% from 2021. We have established barriers to entry by developing the capabilities of hardware device manufacturing and educational resource research, an nationwide extensive distribution network, and an expanding and loyal user base. As such, we believe we are positioned to capture the newly market opportunities.

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Our ecosystem has captured the critical elements along the value chain of the smart learning device service industry, while presenting a high level of flexibility and multiple growth potentials to be explored. For instance, in addition to the stable revenue contribution from sales of personal smart learning devices, we commenced to distribute our smart classroom solutions from March 2017. During the Track Record Period, the total device shipments of our smart classroom solutions were 7.1 thousand units, 21.3 thousand units and 19.9 thousand units in 2019, 2020 and 2021, respectively. In 2019, 2020 and 2021, respectively, revenue derived from our smart classroom solutions amounted to RMB8.2 million, RMB22.3 million and RMB23.6 million, respectively. The decrease in total shipment from 2020 to 2021 was primarily because (i) in the fourth quarter of 2021, in progress of upgrading our strategy of smart classroom to smart campus, we allocated more resources to its research and development and less in marketing for our smart classroom solutions, and (ii) one major distributor of our smart classroom solutions shifted its business focus on assisting us in promoting smart homework systems and reducing its purchases from us as a result. We believe that, leveraging our sophisticated industry insights and existing operational and technical advantages, we are able to continue to identify and capture potential monetization opportunities in our ecosystem.

We have benefited greatly from our integrated and strengthened education ecosystem, and maintained a positive financial track record. In 2019 and 2020, our revenue amounted to RMB669.9 million, RMB734.0 million, respectively, and net profit increased from RMB69.4 million in 2019 to RMB92.0 million in 2020. Our revenue further increased by 10.8% from RMB734.0 million in 2020 to RMB813.2 million in 2021, while net profit decreased by 10.7% from RMB92.0 million in 2020 to RMB82.1 million in 2021. Without considering the impact of the [REDACTED] expenses and changes in fair value of financial liabilities at fair value through profit or loss in connection with the shares we issued to our [REDACTED] Investors, our adjusted net profit, a non-HKFRS measure, would have decreased by 16.3% from RMB92.0 million in 2020 to RMB77.0 million in 2021.

### **An extensive distribution network with deep penetration which delivers innovative experience, ensures user acquisition efficiency and effectively improves the imbalance in educational resource allocation**

We have developed a nationwide distribution model and our distribution network comprised 132 offline distributors who controlled 4,523 points of sales, locating in 344 cities across the country as of the Latest Practicable Date. We endeavor to establish a nationwide distribution network with deep penetration, especially into third- and lower-tier cities in China. The extensive network ensures the user acquisition efficiency, which particularly facilitates the delivery of high quality educational content powered by smart devices to students living in places where educational resources are typically inadequate. During the Track Record Period, the number of the points of sales located in third- and lower-tier cities accounted for approximately 68.6%, 69.7% and 70.9% of total points of sales in 2019, 2020 and 2021, respectively. According to the Frost & Sullivan Report, in 2021, total K-12 students in all third- and lower-tier cities was approximately 169.5 million persons, corresponding to 73% of total K-12 students, and is expected to be 161.5 million person, corresponding to 72% of total K-12 students in China by 2026, indicating remarkable market opportunities. Over the same period,



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per capital expenditure on education is estimated to grow from RMB1,074 in 2021 to RMB1,635 in 2026. Our distribution network with deep penetration not only enables us to distribute our smart learning devices. More importantly, it promotes fair and balanced education opportunities for every students and conveys our philosophy of education to study happily and efficiently to students across the country.

Our offline distribution network also plays a significant role in implementing our innovative business strategy. We rely on these points of sales to deliver customer services and communications, such as personal shopping guide, and after-sales services, which is critical for maintaining satisfactory user experience. We have implemented standardized operational policies and procedures that our distributors shall comply with and we conduct inspections on a regular basis. Furthermore, subject to the location and the purchasing power of neighboring area, we strategically identify certain points of sales that have independent physical storefront to upgrade the same to 4S experience stores. As of the Latest Practicable Date, we had a total of 1,218 4S experience stores located in 257 cities across the country, which provide suite of upgraded and customized services, including study experience sharing groups, book-borrowing centers, or customer birthday party and accounted for approximately 27.0% of total points of sales. We partnered with the relevant distributors to organize a number of offline events in the 4S experience stores. We from time to time invited college students from China’s most reputable universities, such as Peking University and Tsinghua University, to host experience sharing sessions. Such in-store events not only improve the user stickiness but are also attributable to trigger the repeat purchase of our products. Moreover, we also currently rely on our offline distributors to market our smart classroom solutions and provide after-sales support services to the relevant schools. To this end, an extensive distribution network with deep penetration enables us to better leverage the local resources of the offline distributors to acquire school customers and deliver constantly high quality customer service.

Leveraging our information management middle-platform, which includes the ERP system, end-to-end service system, material management system, order management and other modules, we are now able to collect certain key operating data from each of the points of sales, so as to maintain real-time monitoring on these points of sales and regularly modify our procurement and marketing decisions in a timely manner. Moreover, we pioneered in our industry in reforming the distribution network by reducing the vertical layers. Since the structural reform starting from late 2019, the growth rate of our offline distributors reached 43.0% from 2020 to 2021 and 48.3% from 2019 to 2020. Such structural reform allows us to achieve economies of scale, enforce our direct control over the distributors, promotes their operating efficiency, and further increases our pricing power and profitability. Maintaining the distribution network allows us to operate and expand on an asset-light model and avoid the significant capital investment in connection with distribution store opening and operating.

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### **Successful applications of advanced technologies and strong AI and big-data capabilities, realizing personalized precision education and maintaining a large and growing user base**

We aim to develop products that could effectively cope with various user needs of students, teachers and parents. We also envision that our products are able to facilitate the students to build good study habits and develop learning skills that will benefit them for life. To this end, we have deployed advanced technologies, including AI and other advanced technologies, in designing and manufacturing our smart devices which are applicable in a variety of education scenarios. For example, as part of our smart classroom solutions, the proprietary smart exam review system provides teachers a centralized score review analysis tool to efficiently evaluate the students' performance so that they may improve their teaching methods accordingly. It also generates personalized diagnosis reports and learning recommendations subject to each student's learning progress and past performance. Similarly, our personal student tablets are able to generate personalized study reports for individual users, reflecting the students' learning progress and make customized learning recommendations that suit each students' learning capabilities. With respect to our smart learning devices, all of them are equipped with parental control features which allow the parents to conveniently track and review the learning progress, control screen time of their children, and provide scientific and effective guidance. It frees up time for parents and serves as a scientific and efficient tool for them to understand the learning capabilities of their children and to give adult guidance in a more timely and properly way. Smartwatches, on the other hand, are embedded with Chinese and English Word of the Day to help vocabulary study for children during fragmentary time. All these user-centric features and functions led by advanced technologies have continuously enhanced the competitiveness and attractiveness of our products, contributing to the expansion of our user base.

We believe we possess the digitization capabilities, and are able to activate visualized data processing, intelligent services and digitalized management. In addition, we have developed a rich database through various aspects of our operations like offline sales of smart learning devices, after-sales services provided by us and offline distributors, as well as our online learning platform. We leverage our IT systems to collect, archive and analyze digitalized data, such as industry insights and experience, data including complex students' learning behavior and performance data, and extensive data on developing digital educational resources. Such data allow us to better understand our end users' learning needs, behavior and preference, so that we are able to identify growth opportunities and predict market trends. As of the Latest Practicable Date, we had accumulated over 5.4 million registered users, which constitute a reliable source for our creation of user profiles, navigating us to improve our smart learning devices and the embedded digital educational resources, form precise marketing strategies and conversion of our own private user traffic. For instance, empowered by our big-data capabilities, we are able to generate differentiated and customized learning recommendations that best suit different user's learning capability based on the historical personalized study records. Successful precise marketing efforts, such as customized promotional advertisements and learning recommendation, not only increase our the attractiveness of our digital educational resources, yielding a proven track record of improving students' learning skills and academic performance but also increase user stickiness and their confidence in us, which in turn generates strong word-of-mouth referral and spread of our brand name and reputation, thereby further expanding user base.



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### **High quality and comprehensive digital educational resources underpinned by comprehensive and strong content development capability**

We believe the depth and breadth of our digital educational resources available on our smart learning devices are critical for our sustainable growth and future success. We have accumulated in-depth experience and outstanding educational resources development capability. As of the Latest Practicable Date, we had a total of 248 personnel, including full-time and part-time staff, dedicated to educational resource research and development, among which approximately 69% has a bachelor’s degree and approximately 12% has a master’s degree or above. We also engaged an external team consisting of 201 personnel dedicated to educational resource research and development for precise education studies. We strive to explore educational resources and deliver the best-in-class digital educational resources to Chinese students. As such, under our Readboy Institute of Education Technology, we cooperate with a local education institution in Huanggang and self-operate three other branches across the country, namely in Beijing, Zhongshan and Zhuhai. To further strengthen our academic advantages, we have engaged 11 external consultants who were renowned teachers or education experts retiring from reputable schools or education institutions in China. These consultants not only bring us their comprehensive understanding and insights in selecting not only high quality educational resources, but also resources that intend to deliver higher learning efficiency, based on their first-hand experience. Moreover, to timely capture the market trends and the regulatory changes in China’s education system, we closely cooperate with other various interested parties in our industry, including but not limited to colleges, local educational institutions, and publishers specializing in educational books. We will continue to utilize our sophisticated content research and development capabilities with the empowerment of IT technologies, such as the online learning platform, to streamline our digital educational resources and reach more potential users across the country, especially those located in remote areas where access to high quality educational resources is limited, promoting fair and balanced education opportunities for more students.

We invest significant efforts in establishing a high quality educational resource research and development crew with passion and experience. As of the Latest Practicable Date, we had an educational resource research and development team of 248 personnel, including full-time and part-time staff, many of whom were graduates from top universities in China and overseas, such as Harvard University, Peking University and Tsinghua University. We place strong emphasis on providing comprehensive and systematic training for our educational resource research and development crew on an on-going basis.

We currently offer synchronous lesson learning resources cover a wide range of academic subjects, including Chinese, mathematics, English, physics, chemistry and so on. We also offer selected featured learning resources to inspire and support students’ interests and skills. We further design academic learning resources based on multiple levels of difficulty for different levels of learners, which contain differentiated learning skills and key study points. This differentiation approach efficiently cater to the needs of students with varying learning capabilities. Leveraging our big-data and AI capabilities, we are able to identify individual user’s learning needs and generate personalized learning recommendation accordingly. Such

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strategy reinforces the attractiveness of our products and services, in turn, increasing the end users' confidence in us. As of the Latest Practicable Date, we had produced 3,319 short-form animation courseware, each focusing on one knowledge point and lasting for about three minutes. Our online question bank has accumulated over 33.4 million questions. As of the Latest Practicable Date, our online learning platform had hosted pre-recorded video resources lasting over 11,270 hours.

In addition, we are one of the first movers in China to develop and offer smart classroom solutions to preliminary and secondary schools. Subject to the special needs and requests of each schools, we offer customized services, including modifying educational content for them based on local curriculum standards which may vary slightly from region to region. To facilitate paperless teaching, and improve teaching efficiency we also develop courseware and interactive software and different digitalized experiment materials adaptive to our smart classroom solutions. In addition, we help schools to establish school-wise database and convert and archive their teaching materials to electronic versions. Such database allows real-time document sharing and exchange. Our smart classroom solutions aim to empower the way of in-school teaching and learning digitally, promoting teaching quality and efficiency. Particularly under the recent new PRC education regulatory regime which, among other things, targets to enhance the quality of compulsory education and to improve the digital educational methods of schools, we believe our smart classroom solutions will be recognized by more schools as an effective teaching tool during their process of developing a digital education environment.

We believe that our extensive digital educational resources offering and question bank have reinforced a high barrier to entry that new industry players could barely achieve.

### **Experienced, visionary and dedicated management team**

Our success is largely dependent on our experienced and visionary management team. Our Controlling Shareholders, Mr. Chen and Mr. Qin, have in-depth industry experience in smart devices and education industries. Our management has been passionate and dedicated to education and the average experience of the key management team in our industry is more than 18 years. In addition, our management also possesses profound industry insights who has formed our development strategies and led us to successfully capture the market opportunities in the past decade.

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### OUR DEVELOPMENT STRATEGIES

#### **Continue to optimize our technology-powered education ecosystem and to identify and realize additional growth potentials and revenue streams**

We have established an integrated education ecosystem capturing key aspects across the value chain of education industry. We intend to continue to optimize our ecosystem by developing and upgrading more personal student tablets and our smart classroom solutions to drive more sales. To this end, we will actively rely on technology empowerments to upgrade functions and develop devices that are specifically designed for teaching and learning application scenarios. We expect to enhance our information technologies and infrastructure which not only support our scaling digital educational resource offerings, but also facilitate our digitalized operations. In addition, we are planning to establish a new big-data center in Zhuhai with a focus of developing software, big-data algorithm, and AI related technologies. Moreover, we have been in the process of developing devices adopting 5G technologies, in anticipation of the era of 5G, which will support faster transmission speed and lower latency. Such 5G devices, once launched to the market, are expected to deliver better user experience, which in turn, further differentiate us from our competitors. These initiatives will not only further differentiate our product portfolio from our competitors, but also further attract and retain end users. Such expanding user base, in turn, allows us to better understand current market trends and evolving learning needs and preferences on one hand, and provides stable potential user traffic to our online content on the other hand.

We will continue to deploy innovative business initiatives to deepen the network effects of our ecosystem. For example, we intend to deepen the cooperation with third parties or identify additional platforms to distribute our high quality digital educational resources. In addition, we intend to strengthen the collaboration with offline distributors to increase the user acquisition efficiency of their points of sales. We believe all such efforts will increase the attractiveness of our ecosystem and offer additional revenue streams.

#### **Deepen the reform of our distribution network and strengthen its penetration**

As of the Latest Practicable Date, we had an aggregate of 132 offline distributors. We expect to accelerate the structural reform of our distribution network by promoting the single-layer distribution model while continuing to expand the geographic coverage of the network and deepen its penetration into additional lower-tier cities. In addition to engage additional high quality offline distributors, the ongoing structural reform of our distribution network has proven to be effective in identifying offline distributors that have stronger marketing and management capabilities. In particular, to facilitate one of our strategies to further develop smart classroom solutions, we will also place a focus on identifying offline distributors who have the resources or capabilities and are able to approach more school customers for us. We expect to further support and motivate distributors to operate additional points of sales, which in turn, will enhance our market share. We expect the optimized distribution model will improve our ability to monitor our distributors, enhance their quality in distributing products and delivery services, increase our operating efficiency, thus, our profitability.

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On the other hand, we believe constant high quality user experience is essential for smart learning device service providers. As such, we expect to urge and facilitate our distributors to enhance the in-store services they provide so as to increase user acquisition efficiency and user stickiness.

We will also upgrade our back-end and the store-level IT systems to further streamline the data sharing among us and our distributors, such as covering additional data in connection with inventory level and customer feedback. Through real-time data sharing and monitoring, together with our big-data capabilities, we are able to better manage our operations and exert active and timely inspections on our distributors, please refer to “– Our Distribution Network – Offline Distributors – Management and service support for offline distributors” for more details.

### **Continue to enhance our educational resource development capability and further diversify the offering scope, aiming to deliver greater learning experience and efficiency**

We plan to strengthen the cooperation with famous educational advisors and counsels to enhance our abilities to identify, collect and categorize a broad range of educational resources. By leveraging their expertise and insights as well as our own accumulated experience, we will be able to further enhance our educational resource development capability and offer educational resources delivering greater learning experience and efficiency. We will also strengthen our cooperation with schools, universities and other education institutions in China by taking advantage of the branches under our Readboy Institute of Education Technology, which are either operated under the cooperation with our local partners or independently operated by us. We expect to identify and acquire advanced educational resources and additional educational resource research and development crew.

We intend to enhance our barriers to entry by constantly upgrading and optimizing the quality and scope of our digital educational resources, which is critical to attract and retain end users, fostering our brand image as a major smart learning device service provider in China. We closely track the regulatory and market changes so as to review and update our existing digital educational resources accordingly. Leveraging our IT capabilities and the first-hand feedback received from students, parents and teachers, we are able to collect and analyze our users’ learning performance and progress and will continuously improve our methods and ability in identifying and developing digital educational resources that deliver greater learning experience and efficiency. We will also actively identify unsatisfied learning needs and develop new digital educational resources accordingly.

In particular, at current stage, we endeavor to actively promote the adoption of our smart classroom solutions nationwide. We plan to emphasize our educational resources research and development efforts on localized educational content and special teaching functions, so as to offer customized smart classroom solutions that better respond to the needs of different user.

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### **Selectively pursue strategic investment or acquisition opportunities, extending the value chain of our education ecosystem**

We expect to realize further vertical extension of our value chain and expand our ecosystem by pursuing strategic investments or acquisitions when appropriate opportunity rises. We currently target companies that engage in business or operations across the value chain of education industry that are supplemental to our existing product and service offerings, such as component suppliers with distinguished technologies and/or educational content developers. In selecting and assessing potential opportunities, we will consider synergies between the target and our existing operations, experience and skills of the management team, operation scale, technological capability, product portfolio, valuation and estimated costs, compliance status, as well as cultural fit. As of the Latest Practicable Date, we had not identified any investment or acquisition targets. The transaction size of our future investment or acquisition may vary from case to case and we expect to allocate a certain portion of the [REDACTED] we receive from this [REDACTED] for such strategy, see “Future Plans and [REDACTED]” for more details.

### **OUR BUSINESS**

#### **Our Smart Learning Devices**

We design, develop, manufacture and market a broad range of smart learning devices empowered by comprehensive digital educational resources targeting primary and secondary school students in China, creating a flexible, efficient, effective, interactive and personalized learning experience. We design and develop our smart learning devices by utilizing our in-house research and development capacities, while the substantial portion of the manufacturing is fulfilled by ourselves.

We currently primarily offer our products under one brand, namely Readboy (讀書郎). Our Readboy brand was recognized as a Famous Trademark in Guangdong Province and a reputable technology-powered education brand in China, including the Parents’ Most Trusted Education Brand for Kids in 2018 and the Technical Leading Education Brand in 2018 both recognized by Tencent News Annual Education Event, the Most Trusted Education Brand in 2019 awarded by Xinhua Net Education Forum. Our major product types include:

#### ***Personal student tablets***

Our personal student tablets are designed for personal end users who are primary and secondary (including middle and high school) students aging from 6 to 18, equipped with digital educational resources, mainly synchronous lesson preparation, review and learning materials, which are supplemental to the in-school education for compulsory school education, and certain selected featured learning resources. Courseware is pre-installed and is extendable while connecting to our online learning platform which offer pre-recorded video resources. For more details about the digital educational resources we offer, see “– Our Digital Educational Resource Offerings” above. These tablets are featured with colorful and easy-to-operate interface with skill-building educational resources to facilitate children’s development of cognition and creativity.

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Our personal student tablets currently are available in over ten models with different feature configurations, catering to the needs of different end users. In addition to basic learning functions, high-end models are also embedded with larger memory storage, higher resolution display, and/or AI voice assistant and so on. We apply human-centered designs, such as eye-protection screens, to create a comfortable and safe learning environment. Our personal student tablets also provide parental control features which allow the parents to conveniently track and review the learning progress and control screen time of their children. For a more detailed description of the applications of advanced technologies to our personal smart learning devices, please refer to “– Research and Development” below.

During the Track Record Period, the total shipments of our personal student tablets were 456.9 thousand units, 484.6 thousand units and 458.8 thousand units in 2019, 2020 and 2021, respectively, and revenue derived from such products amounted to RMB541.5 million, RMB664.9 million and RMB705.0 million, respectively, over the same periods. The decrease in total shipment from 2020 to 2021 was primarily due to the shortage in certain key materials, such as integrated circuits and display screens. The retail price of our personal student tablets mainly ranges from approximately RMB2,000 to RMB5,000.



Model C25



Model C18

### *Smart classroom solutions*

Our smart classroom solutions typically refer to the smart educational devices embedded with smart classroom management functions, which provide a connected and interactive learning environment for school teachers and students on one hand and enable parents to monitor the learning status of their children on the other hand. Currently, primary and secondary schools are our target customers of smart classroom solutions and we expect our products will enhance the way of teaching and learning digitally, promoting teaching quality and efficiency. The hardware devices available under our smart classroom solutions to school students are generally similar with the personal student tablets we offer to individual customers. The embedded education resources and certain associated functions are different from those on personal student tablets, which are customized to facilitate in-class interactive teaching and learning. In addition, the tablet devices for school teachers also provide teaching tools such as smart exam review and homework assignment system.



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## BUSINESS

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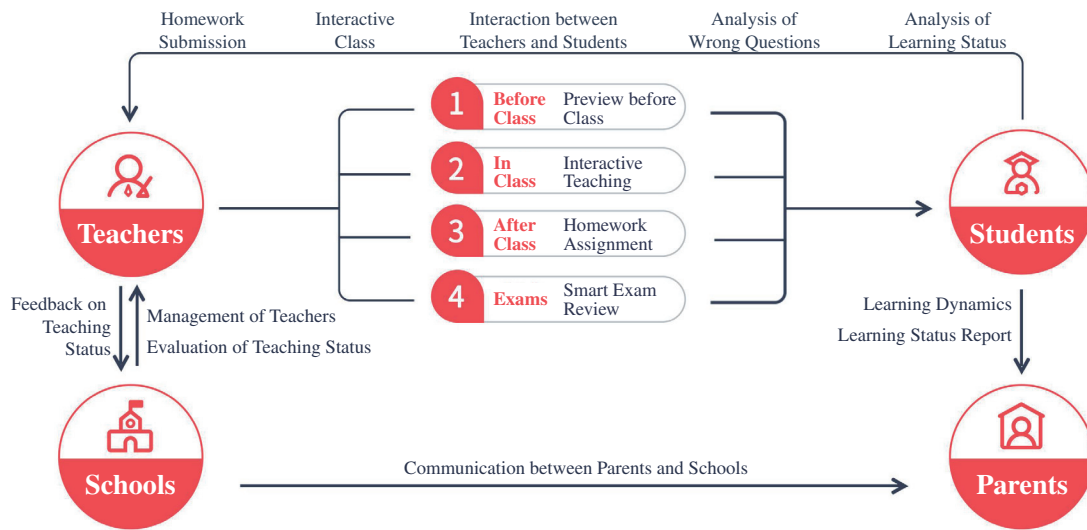
Subject to the special needs and requests of each schools, we offer customized services, including modifying digital educational resources for them based on local curriculum standards which may vary slightly from region to region. To facilitate paperless teaching, and improve teaching efficiency we also develop courseware and interactive software and different digitalized experiment materials adaptive to our smart classroom solutions. In addition, we help schools to establish school-wise database and convert and archive their teaching materials to electronic versions. Such database allows real-time document sharing and exchange. We also provide after-sales services on a regular basis for device and system maintenance and upgrades.

As such, our smart classroom solutions enable the schools to achieve full digitalization in a cost efficient manner, and exert centralized and visualized management on teaching processes and quality. In light of teachers, our smart classroom solutions enable them to manage their teaching activities in an efficient way, including lesson preparation, in-class teaching, assigning and reviewing homework, and conducting tests and post-test review. Teachers can collect and generate digitized statistical data easily, assisting them to evaluate the performance of each students and adjust his/her teaching plans accordingly. With respect to students, our smart classroom solutions provide an engaging in-class and post-lesson learning experience where they are able to collaborate, interact and respond so as to better grasp knowledge and achieve better academic performance. Finally, through the smart classroom solutions, parents are able to easily understand the learning progress of their children and keep an informative and efficient communication with the teachers constantly. Under the recent new PRC education regulatory regime which, among other things, targets to enhance the quality of compulsory education and to improve the digital educational methods of schools, primary and secondary schools are highly encouraged to carry out digital transformation which creates intensified needs for sophisticated smart classroom solutions. As such, we believe our smart classroom solutions will not be subject to the impacts from the recent release of the Opinions and those follow-up policies, and will be recognized by more schools as an effective teaching tool during their process of developing a digital education environment.

During the Track Record Period, the total device shipments of our smart classroom solutions were 7.1 thousand units, 21.3 thousand units and 19.9 thousand units in 2019, 2020 and 2021, respectively. The decrease in total shipment from 2020 to 2021 was primarily because (i) in the fourth quarter of 2021, in progress of upgrading our strategy of smart classroom to smart campus, we allocated more resources to its research and development and less in marketing for our smart classroom solutions, and (ii) one major distributor of our smart classroom solutions shifted its business focus on assisting us in promoting smart homework systems and reducing its purchases from us as a result. We had supplied our smart classroom solutions to 65, 50 and 113 schools in 2019, 2020 and 2021, respectively. Revenue derived from smart classroom solutions amounted to RMB8.2 million, RMB22.3 million and RMB23.6 million, respectively, in 2019, 2020 and 2021, respectively. The retail price of the smart educational devices sold under our smart classroom solutions mainly ranges from approximately RMB1,998 to RMB4,898 per unit.

## BUSINESS

The following diagram illustrates the major components of our smart classroom solutions.



### *Wearable products*

We believe wearable education gadgets play an increasingly significant role in the new era of education by providing a wireless and hand-free access to various visual and audio educational resources beyond classroom in pockets of time. Such devices have expanded education scenarios and fueled the students with additional fun and motivation in learning during fragmentary time. In this regard, we have developed smartwatches specifically focusing on educational features and functions. In addition to traditional functions of smartwatches for children, such as GPS, video calls, health monitoring and emergency assistance, our smartwatches also pre-install a suite of educational functions, such as Chinese and English Word of the Day to help vocabulary. We also design functions to help children shape healthy study habits, such as time tracker and class schedules and reminders with alarm. In addition to the basic cell phone function for children, subject to product specifications, our smartwatches are also equipped with advanced functions like touch screen, dual-camera and so on.

During the Track Record Period, revenue derived from wearable products continued to decrease, because certain key customers of such products who shifted their distribution strategies to focus more on 5G powered products, therefore reducing the purchase orders with us. In response to such changes in the purchasing policies of those customers and the general market trends, we decided to adjust our distribution and product development strategies in light of our wearable products. We believe there remain potential market opportunities for wearable products and we intend to continue to develop and market such products in the future. For more details, also refer to “—Production Capacity, Production Volume and Utilization Rate” below. During the Track Record Period, the total shipments of our wearable products were 380.9 thousand units, 112.2 thousand units and 188.5 thousand units in 2019, 2020 and 2021, respectively. Revenue derived from such products amounted to RMB111.8 million, RMB31.7 million and RMB53.7 million, respectively, in 2019, 2020 and 2021. The retail price of our wearable products mainly ranges from approximately RMB390 to RMB1,000.

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## BUSINESS

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Model A6E

### *Other products*

We identify emerging market needs and trends and from time to time develop teaching and learning accessories that compatible to our smart learning devices, aiming to make learning more productive and efficient. We currently offer smart reader pens, which, working with our online content, can identify and read the Chinese or English words and sentences out loud. Our smart scanner pens are able to translate the selected Chinese or English sentences instantly without connecting to the Internet. We are also in the process of developing additional accessory products to explore education market opportunities, such as smart study lamps and smart printers to capture and identify wrong answers. We believe a broad product offerings of such accessories will further reinforce our brand recognition in our industry in China.

During the Track Record Period, revenue derived from these accessory products amounted to RMB6.0 million, RMB2.1 million and RMB17.9 million in 2019, 2020 and 2021, respectively.



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Model E8



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Model D1

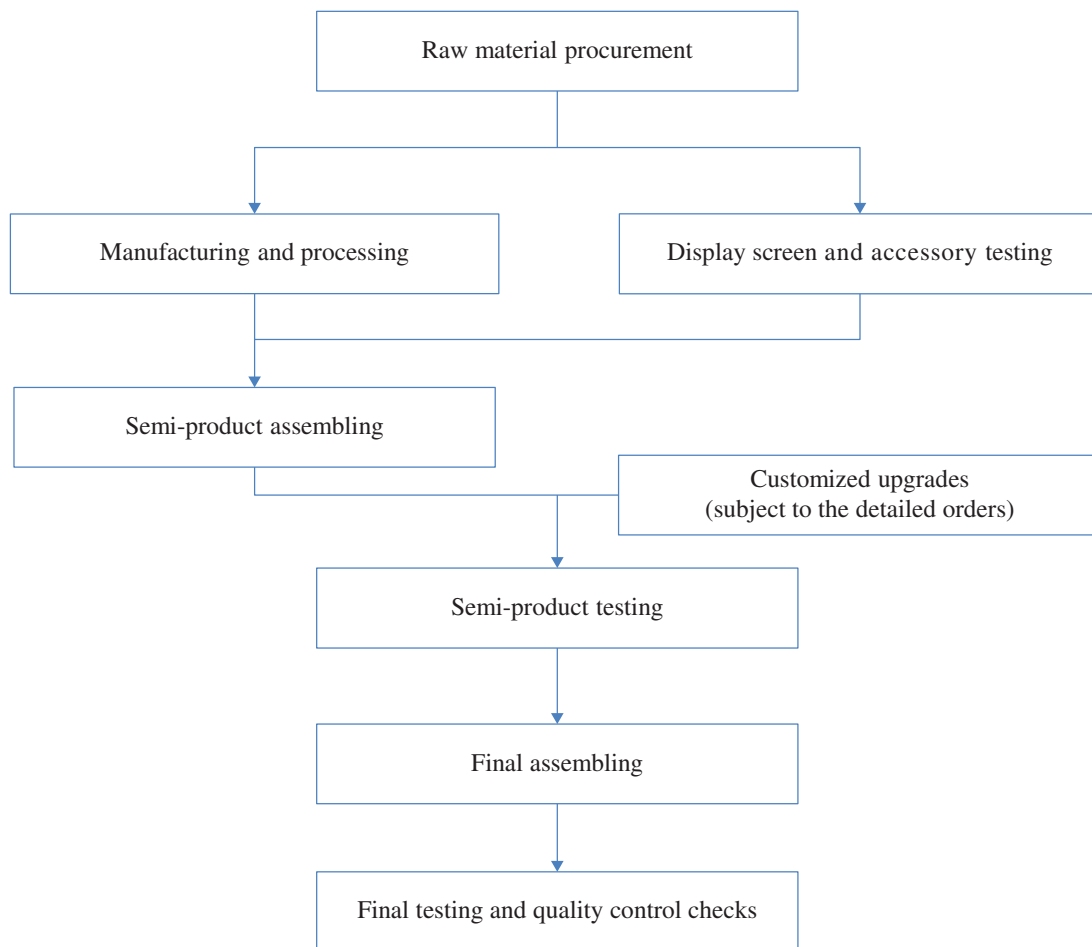
## BUSINESS

### PRODUCTION AND ASSEMBLY

Our smart learning devices are developed and designed by us, while substantially all of the manufacturing and assembling are completed at our in-house production and assembly facility. Since late 2020, we commenced to outsource the production and assembly of certain models of our smartwatches to a third-party manufacturer under the original equipment manufacturer agreement, or the OEM arrangement. Since the amount of such outsourced manufacturing is very limited, we do not expect it will have any material impact on our operating or financing performance.

#### In-house Manufacturing Processes

The typical manufacturing processes for certain key products are described below.



It generally takes three months for the production and assembly process for each type of our products, taking into account of the lead time for raw material procurement.

## BUSINESS

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We continuously review the production and assembly processes and analyze relevant data to explore opportunities for productivity enhancement and to adopt more effective practices consistently across our production and assembly lines. We source a variety of raw materials from third parties, see “– Suppliers – Procurement” below for details. Our production and assembly processes require a stable and sufficient supply of utilities, such as water and electricity. We anticipate that our reliance on such supply of utilities will increase as we seek to expand our production capacity. During the Track Record Period, we did not experience any disruption in the supply of utilities that had a material impact on our business or operations.

### **Production and Assembly Facility**

We currently operate one production and assembly facility located in Zhongshan, Guangdong Province with a total gross floor area of approximately 30,700 sq.m. Our Zhongshan facility commenced operation since 2006, which currently has four production and assembly lines and two packaging line. Production of our products is generally interchangeable with relatively quick configuration to production and assembly lines, which allows us to plan and adjust our production and assembly activities efficiently and flexibly to address market demands while incurring minimum fixed costs. Moreover, we have significantly invested in improving the automation level of our production and assembly facility. A large portion of the production and assembly lines and equipment are equipped with automated production capabilities.

We carry out inspections and maintenance at our production and assembly facility on a regular basis to ensure good working condition, and will replace or upgrade such machinery and equipment from time to time as more advanced technologies become available. Subject to the scale of the inspection and maintenance, our inspection and maintenance are scheduled on a daily, monthly and annual basis. Daily inspections include cleaning and greasing our equipment and machinery. Each month our technician inspects the degree of wear and tear, sensitivity of equipment and machines and whether all moving parts are working smoothly. Our technicians are also responsible for replacing any malfunctioning parts. Maintenance overhauls are carried out on the whole production and assembly facility each year.

During the Track Record Period, we did not experience any material production disruption due to unexpected failure of production flows or equipment.

### **Production Capacity, Production Volume and Utilization Rate**

Our production capacity and volume are measured by volume, in units. In general, we take into account the working hours and working days that we consider normal in the region where our production and assembly facility is located when calculating our production capacity. We also take into account effective working hours (by excluding machine set-up and reconfiguration time, time for meals, workers’ resting time, training time and work handover time, where appropriate) and manpower limitations in the calculation of our production capacity.

## BUSINESS

We endeavor to maintain an optimal utilization rate in order to benefit from economies of scale. On the other hand, we typically intentionally reserve a small portion of production capacity so as to promptly respond to seasonal fluctuation or unanticipated and urgent purchase orders. In addition, our manufacturing machinery and equipment can be efficiently reconfigured so that we are able to quickly switch the production and assembly for different products.

The following table sets forth the production capacity, volume and utilization rate data of our Zhongshan facility for the years indicated.

<u>Year</u>	<u>Main Products</u>	<b>Number of Production and Assembly Lines in Operation</b>	<b>Designed Capacity<sup>(1)</sup></b> <i>(unit)</i>	<b>Actual Production Volume</b> <i>(unit)</i>	<b>Utilization Rate<sup>(2)</sup></b> <i>(%)</i>
2019	Educational tablets <sup>(3)</sup>	2	600,000	531,025	88.5
	Wearable products	2	600,000	460,435	76.7
2020	Educational tablets <sup>(3)</sup>	2	600,000	531,720	88.6
	Wearable products	2	600,000	98,399	16.4
2021	Educational tablets <sup>(3)</sup>	2	600,000	527,360	87.9
	Wearable products	2	600,000	184,841	30.8

*Notes:*

- (1) The production capacity of the year is estimated based on the following assumptions: (i) all production and assembly lines are functioning in its full capacity; (ii) 8 hours per shift, one shift per working day and 250 working days per year throughout the Track Record Period.
- (2) Utilization rate is calculated by dividing the actual production volume during the year by designed production capacity of the year.
- (3) Represent the personal student tablets and the devices under the smart classroom solutions.

The utilization rate of our educational tablets continued to increase during the Track Record Period, which was in line with the growing sales of such products and reflected the gradual market acceptance of our educational tablets embedded with high quality digital educational resources. The utilization rate of our smartwatches declined during the Track Record Period, primarily due to the significant decreases in purchase orders, particularly from two major customers of such products who shifted their distribution strategies to focus more on 5G powered products. In response to such changes in the purchasing policies of those customers and the general market trends, we decided to adjust our distribution and product development strategies in light of our wearable products by reducing the production volumes of existing models and meanwhile, accelerating the development of smartwatches with more added-value, such as educational functions, and with higher technological competitiveness, such as being adaptive to 5G environment. We believe there remain potential market



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opportunities for wearable products. According to the Frost & Sullivan Report, the total shipment of kid smartwatches will reach about 32.1 million units, representing the total retailing market size of about RMB25.5 billion and a CAGR of 14.2% from 2021 to 2026. We intend to continue to develop and market such products in the future, in particular the products that are able to differentiate us from our competitors in the market.

Since most of our products, including the educational tablets and the smartwatches, share similar production and assembly processes, we are able to efficiently reconfigure our production and assembly lines and re-arrange our production plans for different products in accordance with the fluctuation in actual purchase orders from time to time. In slow seasons, we may temporarily suspend part of the production and assembly lines in operation to increase the production efficiency. Moreover, currently, our facility is able to maintain certain capacity flexibility. We are able to quickly set up two to three additional production and assembly lines without incurring significant investments in equipment and space.

### **Critical Machinery and Equipment**

We endeavor to equip our production and assembly facility with advanced and automated equipment, which we believe is essential to increase automation, ensure reliability, efficiency as well as cost competitiveness. The major machinery and equipment include customized automatic production and assembly lines, automatic screwing machines, dispensing machines, customized automatic functional testing tables and other various testing machines.

We purchase various machinery, equipment and parts from third parties which are then assembled in-house, some of which are imported from overseas countries, such as Japan. We typically maintain multiple suppliers for our production machinery and equipment and do not rely on any single supplier.

Based on our replacement schedule, the expected useful lives of our major machinery and equipment are approximately 5 to 10 years. As of the Latest Practicable Date, the average age of our major machinery and equipment was approximately 5.5 years. We adopt the straight-line method over the estimated useful lives of the relevant equipment to calculate depreciation of our machinery and equipment.

### **Outsourcing Arrangements**

Since late 2020, we commenced to outsource the production and assembly of certain models of our smartwatches to an independent third-party manufacturer under OEM arrangement with industry customary contractual terms. Our third-party manufacturer produces the designated products based on specifications and standards established by us and does not require production know-how and techniques from us for the production. We possess the key patents and technologies in relation to the production and assembly processes of the relevant products.

## BUSINESS

Given that our current in-house production capacity is relatively stable at a high level, we believe our strategic outsourcing arrangement has allowed us to focus our resources on main products and increase production capacity in a timely manner without incurring additional capital expenditure, especially when we expect to develop additional new products.

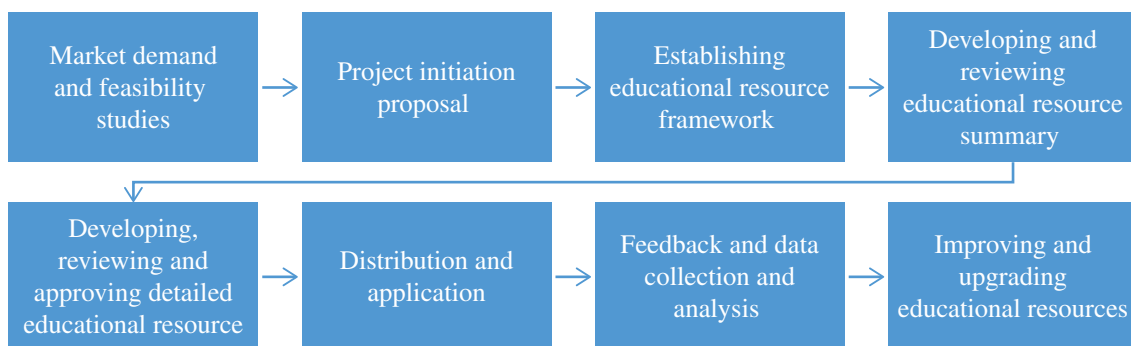
Our manufacturing partner has been accredited with ISO 9001, a standard and guideline relating to quality management systems. In order to ensure the quality of our products under the outsourcing arrangement, we carefully evaluate and review the manufacturing partner according to its production performance, quality control and compliance with applicable laws and regulations, we also conduct on-site inspection from time to time. We do not foresee any imminent risk of its failure to provide the manufacturing services on a similar scale to us.

### Our Digital Educational Resource Offerings

#### *Educational Resource Research and Development*

As of the Latest Practicable Date, we had an aggregate of 248 personnel dedicated to educational resource research and development, including full-time and part-time staff who were typically employed on a project-by-project basis. Approximately 69% of the staff under our Readboy Institute of Education Technology have a bachelor’s degree, among which approximately 12% have a master’s degree or above. We also engaged an external team consisting of 201 personnel dedicated to educational resource research and development for precise education studies.

The following diagram illustrates the major steps in developing our digital educational resources:



To supplement our in-house educational resource research and development, we maintain close collaborative relationships with various interested parties in our industry, such as domestic education institutions and publishers specializing in educational books. For example, we from time to time enter into licensing agreements with publishers to use their copyrighted educational content. We generally do not directly offer such education content licensed in from third parties to our end users. Rather, we utilize those content as a part of the reference materials during our educational resource preparation and development. Currently, other than a very small portion of licensed-in courseware/video resources that are developed by third parties and placed in our devices for marketing collaboration purpose, substantially all of the

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digital educational resources we offer to the end users on our smart learning devices are self-developed. We also collaborate with third parties to jointly develop educational content. We typically agree to make a payment to the relevant third parties under such cooperation in order to obtain the copyright of the education contents under such joint development.

We emphasize not only the quantity but also the quality of our digital educational resources which is crucial to our reputation and sustainable success. We strive to develop comprehensive content offerings catering to the diverse learning needs of primary and secondary school students in all age groups, facilitating them to develop more productive and efficient learning skills, and thus, better academic performance. We also intend to enrich our digital educational resource offerings as we continue to expand our student base.

### *Our Educational Resource Research and Development Crew*

Retaining a team of passionate and high quality educational resource research and development crew is a key to maintaining and growing our reputation, competitiveness and market share. We have established well-developed procedures for identifying, hiring, training, evaluating and retaining qualified educational resource research and development crew, which include a rigorous recruiting process, periodic trainings, corporate culture and philosophy, as well as a competitive base salary coupled with performance-based bonuses. We believe that our competitive and incentivizing remuneration package, career advancement opportunities, and systematic training programs allow us to recruit, train, evaluate and retain top quality educational resource research and development crew in the industry.

Leveraging our well-established reputation and extensive experience, we have been able to effectively recruit and retain high quality and qualified educational resource research and development crew across our content offerings. Currently, we mainly identify and approach such crew through referrals and online recruitment. We primarily focus on the educational background, and working experience. We target prospective candidates who are passionate about education career and endorse our corporate culture. Our recruitment process includes, among others, resume screening and in-person interviews.

We have established systematic training programs to standardize and streamline the professional training of our educational resource research and development crew nationwide. For newly hired personnel, we provide trainings to improve and standardize their skills and abilities. We also arrange systematic training programs on an ongoing basis focusing on various topics, such as educational content studies, research methods, and our corporate values and so on.

As of the Latest Practicable Date, we had 248 educational resource research and development crew, including full-time and part-time staff, many of whom were graduates from top universities in China and overseas, such as Harvard University, Peking University and Tsinghua University. We maintain a rigorous evaluation system to appraise the performance of our educational resource research and development crew. For instance, we review their student satisfaction and student retention rate on a monthly basis. We also require ethical conducts. We may consider to suspend, or even terminate, the contract with a educational resource research

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and development crew if he/she remains underperforming for a prolonged period or severely violate our code of conducts. The turnover rate of our full-time educational resource research and development crew was approximately 11.8%, 17.2% and 26.5%, respectively, in 2019, 2020 and 2021.

We enter into an employment agreement with each of our full-time educational resource research and development crew, which specifies the academic subject he/she is responsible for and his/her major responsibilities, including preparing learning materials based on our standardized syllabus and curriculum framework, participating in the production of pre-recorded video resources in accordance with our requirements and standards. The employment agreements with our full-time educational resource research and development crew generally have a term of three years. We also enter into confidentiality agreements with our full-time educational resource research and development crew. The agreements with part-time educational resource research and development crew are generally on a project-by-project basis, which provide the number and duration of pre-recorded video resources he/she will be participating in during the term of the relevant agreement, as well as the compensation both parties agreed for the services provided. The educational content is subject to our review and approval and if the quality of certain educational content a crew delivers could not meet our requirements or standards, we can ask him/her to revise and redo the work or, in severe cases, we have the right to terminate the agreement. Pursuant to these agreements, we are entitled to the ownership of the intellectual properties arising out of the performance of the agreements, such as the educational content in audio, video, written or other forms. We are entitled to continue to use the educational content after the relevant employment agreement expires and we also allowed to authorize, license or transfer such educational content to third parties, without obtaining the consent and paying additional compensation to the relevant personnel. In addition, under the employment agreement, the crew undertakes that he/she shall keep confidential all the relevant information he/she accesses in connection with the performance of the agreement, and shall not sell, transfer or gift such to any third parties without our consent and authorization. We are entitled to seek damages from the personnel if he/she breaches the agreement.

To further strengthen our academic advantages, we have engaged 11 external consultants who were renowned teachers or education experts having retired from reputable schools or education institutions in China. These consultants bring us their comprehensive understanding and insights in selecting not only high quality digital educational resources, but also resources that intend to deliver higher learning efficiency, based on their first-hand experience.

### ***Readboy Institute of Education Technology (教育科技有限公司)***

Readboy Institute of Education Technology is our in-house educational resource research and development center founded in 2017, which is mainly responsible for content research, educational resource design and development, courseware and pre-recorded video resource production and other relevant supportive services. We strive to explore educational resources and deliver the high quality digital educational resources to Chinese students. As such, under our Readboy Institute of Education Technology, we cooperate with a local education institution in Huanggang and self-operate three other branches across the country, namely in Beijing,

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Zhongshan and Zhuhai. Moreover, we have recently entered into a strategic agreement with the institute of technology of a renowned university in the United States, to explore cooperative opportunities in connection with statistics and data science and relevant real-life applications.

### *Synchronous lesson learning resources*

Given the significance of primary and secondary school education in shaping students’ personality and future academic and career paths, we have strategically focused on collecting, developing and offering various synchronous lesson preparation, review and learning materials for primary and secondary school students, which are designed to supplement students’ regular school curricula.

Our synchronous lesson learning resources have covered all grades in primary and secondary schools and a wide range of academic subjects, including Chinese, mathematics, English, physics, chemistry and so on.

We also further classify such digital educational resources educational resources into multiple levels of difficulty for basic and advanced learners, which may contain differentiated learning skills and key study points. This differentiation approach efficiently suits the needs of students with different learning capabilities. In addition, due to the slight differences in the standard curricula textbooks published in different regions and by different education institutions, we may also modify the content accordingly.

### *Advanced learning resources*

We believe one of our competitive strengths is our ability to offer differentiated educational instruction to meet the needs of students with different learning capabilities. In this regard, other than the comprehensive digital educational resources educational resources adaptive to the compulsory primary and secondary in-school education, we have developed advanced learning resources for students who pursue higher academic achievements. For example, our phonics sessions offer the students a practicable tool to strengthen English vocabulary building without memorizing phonetic symbols. Our mathematical thinking training sessions focus more on improving the students’ skills of calculation, time and space, and logic analysis.

### *Featured learning resources*

In addition to those digital educational resources educational resources for academic subjects, we also design and offer a suite of featured learning resources, aiming to inspire and support students’ various interests and skills, such as computer programing, calligraphy, safety education, STEAM and science exploration resources. In addition, we recently developed family education resources for parents, providing professional parenting advice.

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### *Formats of Our Digital Educational Resources*

We produce short-form animation courseware, each focusing on one knowledge point and lasting for about three minutes. As of the Latest Practicable Date, we had produced 3,319 such animation courseware.

In addition to courseware available on our smart learning devices, we also offer pre-recorded video resources held by our certified educational resource research personnel through our online learning platform. Such pre-recorded video resources cover a number of core academic subjects.

Once connected to our learning platform, the student is able to browse and select from a variety of pre-recorded video resources any time anywhere, which are personalized recommendations based on his/her current grade, learning progress and interests. As of the Latest Practicable Date, our online learning platform had hosted pre-recorded video resources lasting for over 11,270 hours.

In 2017, we pioneered in our industry in offering dual-tutor live streaming classes in China among all domestic smart learning device service providers, indicating our outstanding teaching force and innovative attempt in advancing teaching methods. According to the Frost & Sullivan Report, our major competitors started to offer their live streaming classes since 2019, which was two years after our dual-tutor live streaming classes were launched. Nevertheless, on July 24, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of State Council issued the Opinions on Further Easing the Burden of Excessive Homework and After-school Tutoring for Students Undergoing Compulsory Education (the “Opinions”) (《關於進一步減輕義務教育階段學生作業負擔和校外培訓負擔的意見》). According to the Opinions, after-school tutoring industry will be subject to more stringent regulatory restrictions while in-school education will receive more investments and play a more significant role for China’s primary and secondary school students. Please refer to the section headed “Regulatory Overview” for more details. It is uncertain at current stage whether the central and local education authorities will introduce additional and more stringent regulations to govern the after-school tutoring market, and when and how those detailed rules will be implemented, and how they still affect our industry and our business operations. If the PRC government continues to impose stricter regulations on areas we may be involved in, we could face higher costs in order to comply with those regulations, which could impact our profitability. In response to such regulatory change, we had reviewed our business operations and had discontinued to offer any self-developed live streaming classes since August 2021. We have thoroughly reviewed our online platform and mobile APPs to remove the access to any self-developed live streaming classes and we have terminated any application process for such classes. We have actively identified and made available access to additional online free educational resources on our smart learning devices to the extent permitted by applicable laws and regulations, including the Opinions. For more details about our actions in response to the Opinions, please refer to the section headed “– Recent Regulatory Changes and The Impacts on Education Resources” below.



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### *Fees*

Since our inception, we strive to differentiate ourselves from other competitors by offering high quality smart education hardware embedded comprehensive digital educational resources and we strategically market our brand name as a technology-powered smart learning device service provider. Physical products are more visible, therefore, more easily to reach and be accepted by our target end users, comparing with other education industry players who generally face difficulty in promoting only courses, other educational content and various intangible services. As such, historically, we did not separately charge fees based on digital educational resources we have offered. Instead, we consider the value of our digital educational resources when pricing our smart learning devices. In determining the allocation of prices between the smart learning devices and the digital educational resources, we use expected cost-plus-margin approach to estimate the stand-alone selling prices for the devices and the digital educational resources, respectively, based on the anticipated costs and margins we expect each separate part will incur. We have considered all information that we think is reasonably available, including but not limited to, pricing of similar products by third parties in the market, costs incurred to provide the good or service, and related profit margins. For more details, see “Financial Information – Critical Accounting Policies and Estimates – Revenue Recognition – Revenue from contracts with customers.”

### *Recent Regulatory Changes and The Impacts on Education Resources*

It is noticed that local and central governments have issued a number of policies recently, promoting the healthy growth of after-school tutoring market, including but not limited to the restriction on class hours of after-school tutoring sessions, qualification of relevant teaching crew, requirements for operating online educational content and education APPs, regulating the pricing of online and offline courses and punishing false advertisements. In particular, in July 2021, the General Office of Central Committee of the Communist Party of China and the General Office of State Council issued the Opinions on Further Easing the Burden of Excessive Homework and After-school Tutoring for Students Undergoing Compulsory Education (the “**Opinions**”) (《關於進一步減輕義務教育階段學生作業負擔和校外培訓負擔的意見》), which reaffirmed the government’s political strategies to promote the quality of compulsory in-school education and increase the diversity of educational services provided by schools, and indicated the government’s initiatives to strengthen the offering of free online education content and encourage students to utilize such education content. According to the Opinions, after-school tutoring industry will be subject to more stringent regulatory restrictions while in-school education will play a more significant role for China’s primary and secondary school students. As confirmed by our PRC Legal Advisor detailed in the following paragraphs, we are not an after-school tutoring service provider whose operations are directly regulated by the Opinions. Our smart learning devices are designed to encourage students’ learning interests and cultivate their learning habits, and the embedded digital education resources do not require compulsory attendance and are not intended to set up any specific learning goal. Regardless of the above, we took a prudent approach and with an eye on better complying with the government policies, we had reviewed our business operations and had discontinued to offer any live streaming classes since August 2021. We have thoroughly reviewed our online platform and mobile APPs

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to remove the access to any live streaming classes and we have terminated any application process for such classes. To continue to fulfill the relevant learning needs, we have been producing pre-recorded video resources for those educational resources and the users are notified and redirected to explore our pre-recorded video resources for the content they are interested in.

We believe the discontinuity of live streaming classes will not have a material adverse impact on our business and financial performance, on the basis that (i) historically we did not separately charge fees based on digital educational resources we have offered, and (ii) leveraging our strong educational resource development capability and experience, we are able to maintain the quality and diversity of the content offerings on our smart learning devices by improving other forms allowed by the new regulatory regime, such as courseware and pre-recorded video resources. Such belief is supported by an online survey research conducted by Frost & Sullivan in January 2022 with 1,000 students and parents across the country. According to the survey, Frost & Sullivan concluded that, among others, (a) there are a number of factors the students and parents may consider when making the purchasing decision, and the variety and quality of question bank and pre-installed educational materials provided by the smart learning devices are among the top considerations, while the inclusion of live-streaming classes or not is not a major concern, (b) an overwhelming majority of students and parents who responded to the relevant questions expressed the willingness to continue to use smart learning devices which discontinue to offer live streaming classes, and (c) a majority of the students and parents who responded to the relevant questions selected smart learning devices with educational content over private tutoring as a supplementary education resource after the recent regulatory changes in 2021. As such, we believe that the popularity and the customer demand for smart learning devices in China remain strong which are not materially adversely affected by the release of the Opinions and the discontinuity of the live streaming classes available on the smart learning devices, if any. Moreover, we believe our business growth in the past several years has been attributable to a number of factors, including but not limited to, (i) the continuous improvements in the quality and functionality of our smart learning devices by adopting the latest technologies, (ii) the quality and the increasing amount of education resources, which were provided in the format of pre-recorded video resources, courseware, and live-streaming classes (prior to its discontinuity), (iii) the expansion of our distribution network which facilitates the distribution and sales of the smart learning devices, (iv) other various marketing efforts we have made over years, and (v) the established reputation and brand recognition. In addition, we also believe that our business growth has been a result of the gradual accumulation of these factors over time, which could not be achieved instantly by an occurrence of any isolated event, i.e. the launch of the self-developed live streaming classes. To maintain the variety and quality of our education resources after the discontinuity of the live streaming classes, we have been producing and uploading pre-recorded video resources for those educational resources previously provided by the live streaming classes. We did not directly convert live-streaming classes to pre-recorded video format and upload online. Instead, we summarize the key points based on the compulsory education curriculum and syllabus frameworks and produce video content that organize and present the key points in a way that the students could understand better. Going forward, we will continue to compete by developing high quality student tablets embedded with appealing educational resources in

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various formats. We will continue to upgrade our pre-recorded video resources on a regular basis. We will closely monitor the changes in national and local compulsory education curriculum and syllabus frameworks and new technology and education market trends, so as to modify our education resources accordingly in a timely manner. Moreover, we continue to adopt advanced technologies to produce and upgrade our video content by increasing the video resolution and making the content more interesting and engaging. Given that changes in compulsory education curriculum and syllabus are generally moderate, and our annual budgets have included the technical upgrades for our pre-recorded video resources, we do not expect to incur material costs and expenses in any given period in this regard. In the period from August 1 to September 21, 2021, the total views of our pre-recorded video resources amounted to 14.7 million times, comparing to 10.5 million times in the two-months period in August and September 2020. Total views increased by approximately 40.9% in the eight-month period from January to August 2021, comparing with the corresponding period in 2020, indicating an increasing popularity of our online education resources.

We have also terminated the business plan in connection with selected paid courses. We believe that it will not have a material adverse impact on our overall business and financial performance because (i) historically we did not separately charge fees based on digital educational resources we have offered; (ii) paid courses were planned to be a supplement to our current business operations and our main revenue stream remains to be from the sales of smart learning devices, and (iii) the decision of not offering paid courses will not constitute any difficulty in implementing our other business plans. In addition, under the recent new regulatory regime which, among other things, targets to enhance the quality of compulsory education and to improve the online educational methods of schools, we believe our smart classroom solutions will become a significant strategic focus and advantage, as they are recognized by more schools as an effective teaching tool during their process of developing a digital education environment.

We have also reassessed and optimized our human resources to accommodate these adjustments to our business operations. In particular, we reviewed our full-time educational resource research and development crew who were primarily responsible for live-streaming classes, and reallocated them to content research and development, visual design, animation development and other teams, based on their respective skills and qualification. We did not terminate employment relationship with any of such full-time employees. With respect to our part-time educational resource research and development crew who were primarily responsible for live-streaming classes, we terminated the business relationship with a majority of them and continued to engage the remaining personnel for the development of our pre-recorded video resources on a part-time basis. Since our agreements with part-time crew are generally on a project-by-project basis, we did not incur additional costs and expenses in connection with such termination of the part-time crew.

We believe the smart learning device service market in China remains to be broadly imbalanced and underserved, given that (i) according to the Frost & Sullivan Report, total K-12 students, our target users, in China was approximately 232.2 million in 2021 while our registered users were over 5.4 million as of the Latest Practicable Date, (ii) there are over 1,800

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county level cities in China while our offline distributor network currently only covers 344 county level cities, (iii) there are over 220,000 primary and secondary schools in China while the number of schools to which we supplied our smart classroom solutions was approximately 305 as of the Latest Practicable Date; and (iv) under the recent new education regulatory regime, schools are highly encouraged to carry out digital transformation which creates intensified needs for sophisticated smart classroom solutions; all of the above indicate that our current penetrations, in terms of geographic coverage, student population or school coverage, are generally low and there remain huge market demands and opportunities for us. Despite the above adjustments we made, we believe our smart learning devices remain attractive and popular, regardless of abundant free online education resources and other mobile tablets on the market that are not specially designed for students. Our smart learning devices possess a number of competitive advantages, including (i) sophisticated educational device systems empowered by AI and other technologies benefiting from over 20 years of industry experience, such as a large amount of digital interactive courseware that inspire the interest in learning, and the personalized study reports and learning recommendation our products could generate, and (ii) specialized functions designed for students that deliver a comfortable and efficient learning experience, such as eye-protection and parental control features, which allow the parents to conveniently track and review the students' learning progress, for more details, please refer to “Business” in this document. Moreover, we are one of the first movers in China to develop and offer smart classroom solutions, which business has experienced a rapid growth in the Track Record Period, and is expect to continue to develop, especially in the third- and lower-tier cities, riding on recent favorable policies to promote digital equity and improve balanced education opportunities across the country. During the Track Record Period, we had supplied our smart classroom solutions to 65, 50 and 113 schools in 2019, 2020 and 2021, respectively. Over the same period, revenue derived from smart classroom solutions increased from RMB8.2 million in 2019 to RMB23.6 million in 2021, representing a CAGR of 42.4%. In the period from January 1, 2022 to the Latest Practicable Date, we supplied our products to additional 21 schools across the country, 66.6% of which were located in third- and lower-tier cities.

To better understand and to properly comply with these new policies, we, together with the representatives of our PRC Legal Advisor and the PRC Legal Advisor to the Joint Sponsors, participated in a series of interviews with the local and central education authorities.

On August 11, 2021, we participated in an interview with a senior officer from the Education Supervision Division under the Department of Education of Guangdong Province. We informed Department of Education of Guangdong Province that we have completed the adjustment to our operations by fully terminating the live-streaming classes shortly after issuance of the Opinions. In addition, we were advised, among other things, that (i) we are not an after-school tutoring service provider whose operations are directly regulated by the Opinions, therefore, our current businesses are not required to obtain the permit to commence (辦學許可) as provided by the Non-state Education Promotion Regulation; (ii) the provision of digital educational resources in the form of pre-recorded video does not constitute a form of after-school tutoring business strictly regulated by the Opinions and is permitted under current regulatory requirements; and the provision of pre-recorded video resources without separately

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charging fees is encouraged by the Opinions; and (iii) for the live-streaming classes provided during the Track Record Period prior to the issuance of the Opinions, we have completed the requisite filing procedures for its operations, including obtaining the Certificate of After-school Online Tutoring (《廣東省校外線上培訓備案證明》) issued by the Department of Education of Guangdong Province.

In light of new follow-up new policies, on October 9, 2021, we participated another interview with the same senior officer from the Education Supervision Division under the Department of Education of Guangdong Province. We were advised, among other things, that (i) as to the jurisdiction where we are located, the Education Supervision Division under the Department of Education of Guangdong Province is the competent authority to supervise the after-school tutoring related matters and it is authorized to reply enquires in relation to the Opinions and provide advice and confirmations in connection with the Opinions and other related policies; (ii) we are not an after-school tutoring service provider and it is not directly subject to the Opinions and the follow-up policies; (iii) the provision of digital educational resources in the form of pre-recorded video does not constitute a form of after-school tutoring business strictly regulated by the Opinions and the follow-up policies; and (iv) the Opinions and the follow-up new policies do not have a retrospective effect on our provision of live-streaming classes prior to the release of the Opinions.

On November 1, 2021, we participated an interview with the director of the general office under the Department for Supervision of After-School Tutoring Institutions of the Ministry of Education. We were advised, among other things, that (i) the education authorities at each provincial level are responsible for the execution and implementation of the Opinions within their jurisdiction; as to the jurisdiction where we are located, the Education Supervision Division under the Department of Education of Guangdong Province (with which we conducted the previous interviews on August 11 and October 9, 2021) is the competent authority to supervise the after-school tutoring related matters and it is authorized to reply enquires in relation to the Opinions and provide advice and confirmations in connection with the Opinions and other related policies; and (ii) we shall follow the advice and confirmations obtained from the Education Supervision Division under the Department of Education of Guangdong Province in the previous interviews when conducting its business operations, and (iii) we shall seek advice from the Education Supervision Division under the Department of Education of Guangdong Province in connection with the Opinions and other related policies in the future.

Based on the third interview conducted on November 1, 2021, we believe, and the Joint Sponsors concur, that the confirmations we received from the senior officer during the interviews on August 11 and October 9, 2021, respectively, are valid, sufficient and properly authorized, and could be relied on to guide our business operations going forward.

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According to our PRC Legal Advisor, pursuant to the Opinions and based on the information regarding to the responsibilities and functions of the Department of Education of Guangdong Province set forth on the official websites of the Ministry of Education and the Department of Education of Guangdong Province, (i) the Department of Education of Guangdong Province is responsible for enforcing and implementing education laws, regulations, guidelines and policies within Guangdong provincial area, thus the Department of Education of Guangdong Province is a competent authority to implement the relevant national rules, regulations and policies, including the Opinions, and the senior officer is in charge of after-school tutoring matters and is authorized to give such confirmations, and (ii) based on the facts that (a) the Department of Education of Guangdong Province is the competent authority in responsible for the administrative management of after-school tutoring matters, (b) the Department of Education of Guangdong Province is the actual enforcement entity of the education laws and regulations, and (c) the confirmations provided by the senior officer do not contradict with other policies, laws and regulations, including the Opinions, that have been released to the public so far, the likelihood that the confirmations provided by the senior officer to be challenged by a higher level authority, including the provincial education department (i.e. the Department of Education of Guangdong Province) and/or other national authority, is low. In addition, based on the interviews, our PRC Legal Advisor is of the opinions, upon the adjustments to our business operations as described above, that (i) the provision of pre-recorded video resources would not be regarded as an indirect circumvention of the Opinions, (ii) we are not considered as engaging in the online tutoring operations strictly regulated by the Opinions, and we are not required to obtain additional permits or licenses for our existing operations going forward, and (iii) in terms of our previous business operations during the Track Record Period and prior to the promulgation of the Opinions, we have not been found in violation of the relevant laws and regulations.

### **Content Licensing**

In that we have accumulated our brand recognition for high quality and diverse digital educational resources, we established cooperative arrangements with third parties, usually online content distribution platforms or content streaming device systems with education-focused channels, such as intelligent TV box systems with selected pre-installed education content under which we licensed certain digital educational resources to such third parties, on a non-exclusive basis, to display on their platforms and share service fees charged from their users. Subject to the detailed arrangements with each third party platform, we were entitled to receive certain portion, typically 50%, of the proceeds that the platform generates from our digital educational resources. The third parties shall ensure their platforms are in compliance with the relevant laws and regulations and are able to maintain proper and stable operations. The third parties shall also promote our educational content on their platforms. We, on the other hand, shall ensure our licensed digital educational resources is in compliance with the relevant laws and regulations. Under the cooperative arrangements, we do not transfer the ownership of the intellectual property rights of the licensed digital educational resources to those third parties.



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### OUR DISTRIBUTION NETWORK

We primarily rely on third-party offline distributors for the sales of our products. We also distribute through online channels comprising of our self-operated online storefronts on mainstream e-commerce marketplaces and a limited number of online distributors. Moreover, we commenced to generate a small portion of revenue from third parties who placed in-app advertisements with us since 2019. We also commenced to license our digital educational resources to third parties’ platforms under profit-sharing arrangements since 2019.

The table below sets forth the revenue contribution by our sales channels.

	Year Ended December 31,					
	2019		2020		2021	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(In thousands, except for percentages)</i>					
Offline distributors	614,381	91.7	624,009	85.0	695,641	85.5
Self-operated online platforms	11,693	1.7	21,619	2.9	29,937	3.7
Online distributors	41,307	6.2	75,401	10.3	74,637	9.2
Others <sup>(1)</sup>	2,472	0.4	12,968	1.8	12,966	1.6
<b>Total</b>	<b>669,853</b>	<b>100.0</b>	<b>733,997</b>	<b>100.0</b>	<b>813,181</b>	<b>100.0</b>

*Note:*

- (1) Revenue derived from others during the Track Record Period represented the portion of revenue from (i) third parties who placed in-app advertisements with us and (ii) third parties who offered our licensed digital educational resources on their platforms under profit-sharing arrangements.

### Offline Distribution Network Summary

We have developed an extensive, well-managed nationwide offline distribution network, comprising of points of sales operated by third-party offline distributors. According to the Frost & Sullivan Report, offline distribution, under certain circumstances with the cooperation with employee-distributors, is the common sales and marketing strategy for the major market players in the smart learning device service industry to realize the organic business expansion due to the operating efficiency arising from the light-asset nature. As of the Latest Practicable Date, we contracted 132 offline distributors who controlled a total of 4,523 points of sales located in 344 cities covering 31 provinces and autonomous administrative regions, including municipalities, across China.

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The map below illustrates our offline distribution network in China as of the Latest Practicable Date.

As of May 8, 2022  
Total number of stores

**4,523**



We endeavor to continue to enhance our offline distribution network by expanding into new cities and deepening the penetration in existing regional markets across the country. Based on our researches on the student population, the number of existing points of sales, and local competitive landscape, we expect the new points of sales in our offline distribution network to increase by over 3,400 in the upcoming three years, comprising of over 680 in western China, over 690 in northeastern China, over 670 in central China, over 670 in eastern China, and over 680 in southern China, respectively. We continuously enhance the offline distribution network primarily through (i) contracting with additional offline distributors, (ii) optimizing and re-allocating regional distributorship under the structural reform of our distribution network discussed below, and (iii) enhancing the supports for the distributors by our supervisor team, including the design and execution of our standardized operation protocols among all points of sales, and assistance in the upgrades and establishment of 4S experience stores, to ensure the smooth operation and healthy financial performance of the points of sales.

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We generally allow our offline distributors to engage sub-distributors that they consider appropriate. At the initial stage of our operations, there were a limited number of offline distributors who had local marketing, capital and human resources to facilitate our product distribution and customer services. These offline distributors were usually granted a relatively large designated distribution region and engaged sub-distributors to grow their businesses. Along with our rapid development, the increasing awareness of our brand name, and also partially benefitted from the evolutions in IT technologies, logistics, online payments and instant online communications, we have accumulated abundant experience and capabilities to directly engage and manage more offline distributors to support our expansion. As such, in order to further improve our ability to monitor our offline distributors, enhance their quality in distributing products and delivery services, increase our operating efficiency, thus, our profitability, since late 2019, we have commenced to reform our offline distribution network to establish a single-layer model at prefecture-level cities. We closely review the performance of existing distributors and identify and motivate those who have strong marketing and sales capabilities to expand their designated distribution areas. This approach also includes the identification and motivation of top-performing sub-distributors to directly contract with us and operate their points of sales as our contracted offline distributors. We also encourage offline distributors to simplify their multi-layer sub-distributors by consolidating the resources. With respect to underperforming offline distributors, we may consider to terminate the business relationship with them and re-allocate the relevant designated regions to competent ones. In that we do not rely on any single offline distributors under our single-layer distribution model and we strategically review nationwide coverage and penetration when considering such re-allocation, the structural reform of our distribution network does not have a material and adverse affect on our daily operations. To facilitate the distribution network structural reform, we are also in the process of upgrading our information management middle-platform and other related systems to enhance the management function over the offline distributors, see “— Management and service support for offline distributors” below for more details.

Nevertheless, our current distribution network structural reform does not strictly disallow our offline distributors to engage sub-distributors. Considering the large geographic coverage of certain regional markets and the difficulty in retaining competent distributors with sufficient experience and capabilities, we may, on a case-by-case basis, allow the relevant distributors to engage sub-distributors subject to the review of its ongoing performance, the market demands and the competition within its designated distribution region.

We consider our distribution network structural reform a process with dynamics and vibrations. We do not set forth a concrete timetable for such structural reform, rather, we constantly review and adjust our development plans, together with the efforts of our existing and new distributors, to achieve the optimal single-layer model at prefecture-level cities. As of the Latest Practicable Date, the points of sales controlled by our offline distributors had located in 344 county-level cities, among which approximately 18.0% had transformed to the single-layer distributorship.

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We do not expect to experience any material operational hurdles during our distribution network structural reform. We have well informed our policies and our business goals with our offline distributors. We also keep friendly discussions with and provide timely support to the offline distributors in connection with various execution plans, such as resource consolidation and re-allocation of designated distribution regions.

### *Offline Distributors*

#### *Selection and evaluation criteria for offline distributors*

Engaging capable offline distributors is critical to our business growth. We have developed a systematic process with respect to the expansion planning and execution for offline distributors and their points of sales. We identify and select our offline distributors based on a number of criteria, including, among others, their local relationships and retail experience, financial conditions, operational and marketing capabilities, the number and location of their points of sales, legal compliance status, as well as their understanding of our culture and business model. Only candidates that pass our initial review subject to our selection and evaluation criteria will be qualified as our contracted offline distributors.

We enter into distribution agreements with each of the offline distributors which typically have a term of one year and are renewable subject to mutual consents. For more details about the arrangements under our distribution agreements, see “– Distribution agreements” below. As of the Latest Practicable Date, we had contracted a total of 132 offline distributors, a substantial majority of which are privately owned electronic device trading and distribution companies and/or education and education-tech related industry players, such as education publishers. The table below sets forth the changes in the number of our offline distributors during the Track Record Period.

	Year Ended December 31,		
	2019	2020	2021
Beginning of the year	54	58	86
Additions	13	34	46
Terminations	9	6	9
Net increase	4	28	37
End of the year	58	86	123

\* The number of offline distributors is based on the number of legal entities/individuals entering into the distribution agreements with us in the relevant period.

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We have maintained good business relationships with our offline distributors and we did not experience any material disputes with them, including those who terminated the distribution agreements with us, during the Track Record Period and up to the Latest Practicable Date. Certain of the offline distributors terminated the relationship with us primarily due to subpar performances, change and replacement of operating entity of the distributors, or change of key business scope of the offline distributors or other personal reasons who decided to close their business. During the Track Record Period, revenue contributed by the offline distributors who terminated the distribution agreements with us amounted to RMB5.4 million, RMB4.0 million and RMB5.4 million, in 2019, 2020 and 2021, respectively, accounting for approximately 0.8%, 0.5% and 0.6% of total revenue in the relevant periods.

During the Track Record Period, our offline distributors typically operate multiple points of sales within their respective designated regions. The table below sets forth the changes in the number of points of sales operated by our offline distributors during the Track Record Period.

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
Beginning of the year	2,865	2,905	3,386
Additions	691	838	1,057
Closure	651	357	141
Net (decrease)/increase	40	481	916
End of the year	2,905	3,386	4,302

During the Track Record Period, our offline distributors and their sub-distributors decided to close the points of sales due to different reasons, mainly including the subpar performance and strategic store relocations to meet the trend of consumption upgrade. In addition, certain points of sales were closed in response to the structural reform of our distribution network since 2019 as we re-allocated the designated regions for our offline distributors.

We strive to develop a nationwide offline distribution network with deep penetration. During the Track Record Period, the number of the points of sales located in third- and lower-tier cities accounted for approximately 68.6%, 69.7% and 70.9% of total points of sales in 2019, 2020 and 2021, respectively.

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In the period from January 1, 2022 to the Latest Practicable Date, we newly contracted 24 offline distributors and terminated business with 15 offline distributors. The total number of the points of sales controlled by our offline distributors increased to 4,523 as of the Latest Practicable Date.

We endeavor to establish a nationwide distribution network with deep penetration, especially into third- and lower-tier cities in China. During the Track Record Period, the majority of points of sales controlled by our offline distributors were located in those regions. The extensive network ensures the visibility and availability of our brand and products, which particularly facilitates the delivery of high quality educational content powered by smart devices to students living in places where educational resources are typically inadequate. According to the Frost & Sullivan Report, in 2021, total K-12 students in all third- and lower-tier cities was approximately 169.5 million persons, corresponding to 73% of total K-12 students, and is expected to be 161.5 million person, corresponding to 72% of total K-12 students in China by 2026. Despite a mild decrease in the absolute number, the overall K-12 education market is still underserved mainly due to the limited number of industry players and presents remarkable opportunities. In addition, the continuous implementation of the “two-child policy” in 2016 and the recently announced “three-child policy” in 2021 by the central government would also boost the long-term population growth and improve the country’s population structure. Over the same period, per capital expenditure on education is estimated to grow from RMB1,074 in 2021 to RMB1,635 in 2026. We believe there are huge market opportunities in third- and lower-tier cities in China. In addition, the continuously growing internet penetration in third- and lower-tier cities also serves as a strong foundation for our future development. According to the Frost & Sullivan Report, the internet penetration rate in China’s third- and lower-tier cities has experienced a significant development, from approximately 45% in 2016 to 67% in 2021, and the expected internet penetration rate would reach 85% in 2025. Our distribution network with deep penetration not only enables us to distribute products and services efficiently. More importantly, it promotes fair and balanced education opportunities for every students and conveys our philosophy of education to study happily and efficiently to students across the country. To this end, we will not only strive to identify and maintain additional high quality offline distributors to facilitate us in expanding our geographic coverage, but also will strengthen our online operations through engaging more online distributors and enhancing our marketing efforts to promote our self-operated online platforms, so as to improve our brand recognition and broaden online reach.

### *Management and service support for offline distributors*

Our management team has developed a rigorous and standardized distributor management system that allows us to exert effective management. Such management strengthens the integrity and reputation of our brand which are highly associated with consistent and high quality products and shopping experience.



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We rely on our strong IT infrastructure to achieve the standardized management over our offline distributors. We implement an integrated information management middle-platform, which includes the EPR system, end-to-end service system, material management system, order management and other modules, and enables us to carry out real-time digitalized service supports and monitoring throughout the daily operations of their points of sales, allowing us to effectively track and monitor the sales of every point of sales. To be specific, our information management middle-platform is connected to all points of sales and promptly captures the quantities of devices ordered by each offline distributor, which is a major indicator we use to evaluate the performance of our offline distributors. We also ask the offline distributors to complete the store-level connection with our information management middle-platform as soon as practicable when it or its sub-distributor starts a new point of sales. On the other hand, the system reflects the sales data once a device is sold by a point of sales. Since we do not directly enter into any contract with sub-distributors, our current system does not differentiate the points of sales operated directly by an offline distributor from those operated by a sub-distributor. Instead, the aggregate purchases or sales of all points of sales within a designated distribution region, directly or indirectly controlled by an offline distributor, will be counted as the purchases or sales of this offline distributor by our system. As such, we are able to constantly review and ensure the healthy inventory level of each distributor within a designated distribution region, representing the balance of its ordered amount and the amount sold in its designated distribution region in a given period. Moreover, we also monitor the soundness of the inventory level of our distributors by reviewing their trade receivables. The offline distributors are generally required to make full payment before the shipment, or on a case-by-case basis, we may extend a short credit term of 30 days to certain offline distributors. We do not provide any financial support to our offline distributors. As such, we are able to assess whether there is potential risk of channel stuffing by monitoring the level of trade receivables from each offline distributor. By leveraging the data technologies, our information management middle-platform is able to record, archive and analyze a large amount of data as discussed above. Through comparing the purchase and sales data of an offline distributor in a given period with its performance in a previous comparable period or with the performance of other offline distributors, we are able to adopt prompt measures in case any irregularity in the inventory balance or trade receivable settlement of a distributor is identified.

To support our distribution network structural reform, we are also currently in the process of upgrading our information management middle-platform to enhance the management over distributors, including over the sub-distributors. In particular, in order to retrieve more accurate data on the inventory balance of each of the offline distributors and their sub-distributors in a designated distribution region, we improved the digitalized information collection process. Since the second quarter of 2021, we commenced to ask our offline distributors to submit monthly inventory reports for reference, which shall also separately identify and present the inventory balance of different layers of distributors in a designated distribution region. In addition, to ensure more timely and accurate records of the distributors' sales data, we encouraged the distributors (and asked them to encourage their sub-distributors) to use the e-warranty card when selling and activating the devices. Comparing with traditional warranty paper which is subject to manual input to our system, digitalized e-warranty is automatically recognized by the system, increasing the efficiency and accuracy when activating the device.

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We updated our distributor performance evaluation policies, pursuant to which only sales adopting e-warranty will be recognized for performance evaluation purpose. This highly motivated the distributors and sub-distributors to shift to the use of new e-warranty. All these measures better facilitate us to collect purchase and sales data, estimate and monitor the amount of products remained unsold by the offline distributors and their sub-distributors. We will continue to upgrade our information management middle-platform to cover more data, particularly the detailed data from sub-distributors.

We deem the distributors our valuable business partners who share the same long-term visions and help to serve the customers in store under our brand name. Therefore, we provide various trainings for distributors and their staff with respect to our business philosophy, development strategies, industry insights, store operational knowledge, and marketing skills. We have a marketing support team comprising of 46 people who are assigned to support and monitor the distributors and promptly act in response to their suggestions or enquiries. In addition, we value our distributors' opinions and first-hand feedback, which enable us to constantly modify and improve our distributor management strategies. To ensure full compliance with the distribution agreements and our retail policies and operating procedures which assure the product quality, consumer experience and our reputation, we conduct both scheduled and unannounced inspections on the points of sales by regional supervisors so as to identify and correct any irregularity in a timely manner. We also leverage social media platforms to maintain a close and active connection with our offline distributors. For example, our marketing personnel host and maintain WeChat groups with the offline distributors under their respective supervision, which allows instant communications for service support or feedback. Moreover, we, from time to time, offer additional support to motivate our offline distributors by supporting their new store opening or existing store upgrades, such as decoration and furnishing.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any of our offline distributors committing any material breach of their distribution agreements or being in violation of our retail policies.

### *Distribution agreements*

Our offline distributors are our customers not our agents. We enter into distribution agreements with each of the offline distributors, which typically have a term of one year and are renewable subject to mutual consents. Products sold from us to our offline distributors belong to them upon acceptance and cannot be returned. Our sales to the offline distributors are not on the back-to-back basis and are without recourse. There is no obsolete stock or repurchase arrangements between our offline distributors and us. Other key terms of our distribution arrangements include:

- **Exclusivity:** Without our prior written consent, our offline distributors are prohibited from selling any competitive products sourced from other suppliers or providing any services that are not authorized by us.

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- Designated location and avoidance of cannibalization among offline distributors: Each of our offline distributors is granted the exclusive distributorship in their designated regions and is required to operate their points of sales in the designated premise as specified under the relevant distribution agreement. We typically contract one offline distributor in each designated region. We review the distance between the points of sales based on our market analysis as well as commercial considerations to minimize unhealthy competition among points of sales. Non-compliance may result in penalties, and in severe cases, termination of the distribution agreement.
- Suggested retail prices and discount: We set a suggested retail price as well as a maximum retail price for each of our products. With our prior consent, our offline distributors may slightly adjust the actual selling prices in store based on the suggested price which shall not exceed the maximum retail price.
- Sales target: We generally do not set any sales targets for our offline distributors under the distribution agreement; however, we regularly review, discuss and assess their sales and operational performance, and will monitor such on a regular basis.
- Payment and credit terms: Our offline distributors are generally required to make full payment before the shipment arranged by us. On a case-by-case basis, we may extend a credit term of 30 days to certain offline distributors that have good credit records or make relatively large purchases from us.
- Marketing: Our offline distributors shall participate in our marketing and promotional campaigns and display our brand and products at predominant location in their stores; we may grant certain sales rebates to support and compensate their marketing expenses. In addition, we may grant sales rebates to offline distributors under certain circumstances, such as when their total purchase amounts in a period exceed a mutually agreed amount, or when they participate in our periodical marketing and promotional plans. During the Track Record Period, the sales rebates provided to our offline distributors ranged from 2.5% to 8.6% of the total purchase amount as stipulated in the distribution agreement. For the years ended December 31, 2019, 2020 and 2021, an aggregate amount of RMB52.4 million, RMB63.4 million and RMB51.5 million, respectively, were granted to our offline distributors in sales rebates. The sales rebates were directly deducted from our revenue during the Track Record Period.
- Logistics: We are responsible for the logistic arrangements from our warehouse to one location designated by each offline distributors at our own expenses, but are not responsible for the expenses in connection with distributing the products to various points of sales controlled by them.

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- **Sub-distribution:** We generally allow our offline distributors to engage sub-distributors that they consider appropriate. However, we do not enter into contracts with any sub-distributors. Instead, we rely on our offline distributors to manage and monitor the performance of their respective sub-distributors. The offline distributors shall make a filing with us for record and shall be responsible for the activities of their sub-distributors. We require our offline distributors to educate and monitor their sub-distributors to fully comply with our retail processes and operating procedures. We are currently reforming our distribution network to establish a single-layer model.
- **Product return and exchange:** We are obliged to comply with the after-sales warranty policies as required by the relevant government authorities, see “– Quality Control and Product Warranty” below for more details about our warranty policies. We generally do not allow product return, but our offline distributors may request for product replacement if the product does not meet the expected quality standards.
- **Access to information:** Offline distributors should cooperate and provide us with various information in connection with our products, including sales data and purchase data.
- **Termination:** The distribution agreement may be terminated under certain circumstances. We may terminate the agreement if the conditions agreed by our offline distributors are not met and the offline distributors may terminate the agreement if we fail to deliver the products. Distribution agreements are also terminable by mutual agreement of both parties. The agreement may be terminated due to in the event of force majeure.

### **Online Channels**

#### *Self-operated Online Channels*

To capture opportunities presented by the rapidly growing e-commerce in China and fulfill customer demand for more convenient shopping experience, we have developed online channels to supplement our offline distribution network. We have established the presence on mainstream e-commerce marketplaces, including the Tmall flagship store, the storefront on Pinduoduo, and the in-app store on WeChat. Our online channels currently distribute all product categories.

We entered into cooperative agreements with third-party e-commerce marketplaces to promote and sell our products, which are typically in the standard form provided by such marketplaces. Pursuant to those agreements and subject to the policies released by the marketplaces from time to time, we currently pay processing fees to these marketplaces, typically at a rate varying from 1% to 18% of total transaction value. The settlement cycle is typically within one day and up to three months, subject to the detailed settlement policies of different marketplaces. These marketplaces deploy the online payment systems certified by

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them and collect payments from online users. Sales proceeds are settled with us at the end of each settlement cycle and the relevant amounts are transferred to our designated accounts after both parties reconcile and confirm the transaction records. Furthermore, the third-party marketplaces generally adopt their form agreements, which provide, other than the above mentioned payment arrangements, terms and conditions that the marketplaces shall maintain stable operations and shall provide necessary services facilitating the completion of online transactions, such as product display, order management, delivery allocation and online payment. We undertake that we have obtained the requisite qualifications for our operations and make product quality assurance in the cooperative agreements. During the Track Record Period, we had not received any material claims against our product quality and safety.

### *Online Distributors*

We engage online distributors to facilitate the sales of our products through their own online resources on major e-commerce marketplaces, including Tmall, JD.com, Suning, Pinduoduo and Dangdang. Our online distributors are e-commerce business operators mainly specialized in electronic device distribution. By contracting with these third party online distributors, we are able to quickly expand the coverage across various e-commerce channels, which have contributed to our online sales and brand awareness.

We have experienced a significant growth in the sales of online distributors and we expect such online sales will continue to increase. Nevertheless, we do not expect it will materially and adversely affect the performance of our offline distribution network at current stage. Based on our observation and researches, we believe our online sales mainly serve the purchasing needs of end users located in first- and second-tier cities where e-commerce is relatively mature with logistic and other supporting services well developed, while our nationwide offline distribution network penetrates into lower-tier cities and mainly target end users there. In addition, we constantly monitor the performance of our online and offline distributors and may from time to time review and modify our distributorship policies to mitigate unhealthy competition, if any. We believe the integrity of our brand and reputation relies on contribution from all of our offline and online distributors. First of all, we engage open and constant communication with offline and online distributors to understand their needs, and to inform them about our business development strategies. Secondly, we fully consider the benefits of both offline and online distributors when pricing our products and scheduling differentiated online and offline marketing events, such as different timing, regions and product models involved. We may offer customized product models only to online distributors which the end users could not purchase from offline points of sales and do not carry a directly comparable price offline. Meanwhile, we continue to emphasize the value of in-store experience and after-sales services to attract and retain offline purchasers. Due to the large potential user base, we believe current competition between our online and offline distributors are not unhealthy and manageable.

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We generally enter into short-term distribution agreements with our online distributors. Our sales to the online distributors are not on the back-to-back basis and are without recourse. Such agreements specify a variety of terms, including the payment method, pricing policies and delivery arrangements. Set out below are the key terms of the distribution agreements we typically enter into with our online distributors:

- **Contract terms:** Our distribution agreements with online distributors generally have a term of one year, and may be renewed subject to mutual consents.
- **Designated platforms and prohibition of cross region sales:** Our distribution agreements specify the designated e-commerce platforms on which the relevant online distributor may sell our products. Online distributors are not allowed to sell or resell our products outside of their designated platforms; violations may lead to penalties, cancelation of marketing or promotional support, and in severe cases, termination of the distribution agreements. We have a dedicated team of staff to actively monitor online distributors' sales activities on various e-commerce platforms. Currently, the designated platforms of some of our online distributors overlap on certain major e-commerce platforms, such as Tmall. We believe such overlapping has not resulted in any material cannibalization risk because we are still at an early stage of growing our online channels and had a limited online presence with 14 online distributors as of the Latest Practicable Date. As we gradually build up our online distribution network, we will review the relevant policies on a regular basis and may re-design the online distribution strategies in the future if needed.
- **Payment and credit terms:** Online distributors are generally allowed to settle their payments on a monthly basis; in addition, online distributors are required to pay an upfront guarantee fee which will be refunded upon termination of the relevant distribution agreement.
- **Marketing:** Online distributors shall participate in our marketing and promotional campaigns and display our brand and products at predominant location in their online stores; we may grant certain sales rebates to support and compensate their marketing expenses. In addition, we may grant sales rebates to online distributors under certain circumstances, such as when their total purchase amounts in a period exceed a mutually agreed amount, or when they participate in our periodical marketing and promotional plans. During the Track Record Period, the sales rebates provided to our online distributors ranged from 1.8% to 4.5% of the total purchase amount as stipulated in the distribution agreement. For the years ended December 31, 2019, 2020 and 2021, an aggregate amount of RMB1.5 million, RMB5.0 million and RMB4.3 million, respectively, were granted to our online distributors in sales rebates. The sales rebates were directly deducted from our revenue during the Track Record Period.



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- Minimum purchase requirements: We specify in the relevant agreements the annual minimum purchase requirement with monthly schedules for our online distributors; if the online distributors fail to meet the minimum purchase requirements, we are entitled to amend the contract terms in the upcoming year, including revising the selling prices or terminating the agreement.
- Logistics: Our online distributors are responsible for the logistic arrangements at their own expense.
- Product return and exchange: We are obliged to comply with the after-sales warranty policies as required by the relevant government authorities, see “– Quality Control and Product Warranty” below for more details about our warranty policies. We generally do not allow product return, but our online distributors may request for product replacement if the product does not meet the expected quality standards.
- Access to information: Online distributors should cooperate and provide us with various information in connection with our products, including sales data and purchase data.
- Pricing policy: We set the suggested retail price range for our online distributor and retain the right to adjust such retail price range based on market conditions from time to time; online distributors are not allowed to adjust the retail prices without our prior consent.
- Termination: The distribution agreement may be terminated under certain circumstances. We may terminate the agreement if the conditions agreed by our online distributors are not met and the online distributors may terminate the agreement if we fail to deliver the products. Distribution agreements are also terminable by mutual agreement of both parties. The agreement may be terminated due to any event of force majeure.

We identify and select our online distributors based on a number of criteria, including, among others, their e-commerce experience, operational and marketing capabilities, legal compliance status, as well as their understanding of our culture and business model.

During the Track Record Period, we engaged 8, 9 and 16 online distributors in 2019, 2020 and 2021, respectively. Revenue contributed by our online distributors amounted to RMB41.3 million, RMB75.4 million and RMB74.6 million, respectively, over the same periods. As of the Latest Practicable Date, we have 14 online distributors.

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### Others

We commenced to generate a small portion of revenue from third parties who placed in-app advertisements since 2019. We also commenced to license our digital educational resources to third parties’ platforms under profit-sharing arrangements since 2019.

### Independence of Distributors

During the Track Record Period, ten of our distributors were owned or controlled by eight of our former or then employees (the employee-distributors). Among these employee-distributors, two were our former employees who started their business after they left our company. Three remained as our employees when they became our distributors, who had submitted their resignation applications but had not officially completed the internal administrative process in connection with resignation with us. These three were no longer our employees after they completed the resignation process and left us. Two employee-distributors started their business investment as a shareholder of the respective distributors but were not actively involved in the daily operation prior to the Track Record Period, both of them exited such equity investment in late 2020. As of the Latest Practicable Date, one of them remained as our current employee, and the other one resigned from us in late 2021 and started his own business as our distributor in March 2022. In addition, one former employee of us invested in an offline distributor in Zhejiang Province which commenced business with us since January 2021. In April 2021, this former employee resigned from us and relocated himself to Sichuan Province due to personal reasons. He decided to continue to pursue the business opportunities of acting as a distributor of us. As such, he invested in a second distributor in Sichuan Province in April 2021. He quitted the business of the first distributor in Zhejiang Province and transferred his equity interest to an independent third party in July 2021. In addition to the factors we typically consider in selecting distributors, including their local resources and experience, access to sales channels and marketing capability, we chose to cooperate with these employee-distributors as we believed their employment background with us, their understanding about our company and our products, and their passion to pursue cooperation with us could offer them a significant advantage over others in the designated areas. According to the Frost & Sullivan Report, this model was not uncommon for the sales and marketing of smart learning devices embedded with digital educational resources in China. These employee-distributors included two online distributors and eight offline distributors, who mainly operated in Guangdong, Guangxi, Zhejiang, Sichuan and Fujian provinces and controlled a total of 192 points of sales as of the Latest Practicable Date. In 2019, 2020 and 2021, total revenue contributed by these employee-distributors amounted to RMB18.7 million, RMB24.2 million and RMB33.8 million, respectively.

In 2020, three of our former or then employees were appointed by three distributors as the supervisors of their respective companies. Such supervisors were not actively involved in the daily operations of those distributors and their controlled points of sales. The appointments were merely our support for the relevant distributors in establishing their relevant companies at the initial stage of their business. Two of these employees, who remained as our current employees as of the Latest Practicable Date, had quitted their supervisorship in April 2021. The

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other employee served his supervisorship since late 2020, which was after he left our company in late 2019. The three distributors mainly operated in Yunnan, Guangxi and Anhui provinces and controlled a total of 37 points of sales as the Latest Practicable Date. Total revenue contributed by these distributors amounted to RMB1.0 million and RMB3.0 million in 2020 and 2021, respectively.

Furthermore, during the Track Record Period, the spouse of one of our minority shareholders was a shareholder of two distributors located in Shanghai and Jiangsu Province. As of the Latest Practicable Date, one of them located in Shanghai controlled a total of 15 points of sales, and the other one ended relationship with us in mid 2020. Similar with the previously mentioned former employees, we chose to cooperate with this distributor after we evaluated its local resources and experience, marketing capabilities and its passion to pursue business cooperation with us. During the Track Record Period, total revenue contributed by these two distributors amounted to RMB8.6 million, RMB2.8 million and RMB1.3 million, in 2019, 2020 and 2021, respectively.

The distribution agreements that we entered into with the above-mentioned distributors contained the same terms and conditions, including the pricing terms, that we offer to other distributors. For details of the contractual terms of our distribution agreements, please refer to “– Offline Distribution Network Summary – Offline Distributors – Distribution Agreements” and “– Online Channels – Online Distributors” above. Other than the above, we did not provide financial or other special supports to these distributors. We believe the revenue generated by these distributors during the Track Record Period was insignificant, comparing with the total revenue in the relevant period.

During the Track Record Period, out of the trust in our reputation, a number of our distributors used our tradename, namely Readboy (讀書郎), in the name of their business entities. Since we have increased our efforts to protect our intellectual property rights and we have caused all relevant distributors to change their business names by removing our tradename. To the best of our knowledge, as of the Latest Practicable Date, all of such relevant distributors had completed the administrative procedure to change their business names.

Save as the relationships disclosed above, none of them had other relationships with us, our Directors, senior management and their respective associates.

## INFORMATION TECHNOLOGIES AND INFRASTRUCTURE

Our continuous development in technology capabilities has contributed to our sustained success. We believe our strong IT capabilities enable us to deliver a pleasant learning experience and improve our operational efficiency. We employ experienced research and development personnel to build, maintain and upgrade our IT technologies and systems.

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Since our inception, we have accumulated strong IT capabilities which have navigated us to continuously develop and launch high quality smart learning devices. As of the latest Practicable Date, we owned 96 software copyrights and 197 patents and we are in the process of applying for additional 456 patents, the majority of which are IT related. Our IT capabilities are highlighted as follows:

### **Award-winning Research and Development Center**

We were recognized as one of the first research and development centers under the engineer and technology research and development center plan of Guangdong Province in 2009. We received numerous recognitions from relevant government authorities awarding our achievements in IT technology innovations, including but not limited to Privately-owned Technology Enterprise in Guangdong Province, Software Enterprise in Guangdong Province, and Hi-Tech Enterprise in Guangdong Province.

### **LearningOS and Cross-platform Development Capability**

We developed our proprietary LearningOS system in 2016, which is a customized Android-based device operating system specially designed for various educational scenarios. Currently, all of our smart learning devices are powered by our LearningOS system.

In addition, we have possessed the ability to develop and fine-tune our device operating system to be adaptive to multiple mobile platforms empowered by different mainstream technologies and chipsets, which has well prepared us to launch product models promptly in response to changing market trends.

### **Big-data Capacities**

Throughout our long operating history, we have accumulated a huge amount of industry insights and experience, student data, including complex students’ learning behavior and performance data, such as the class attendance rate, interactive behavior data during classes, and after-class reading and exam time, and extensive data on developing digital educational resources. Despite the scale of such data, we have maintained a high standard of data protection and privacy, and our internal legal compliance team is responsible for constantly review our data security practice to ensure the full compliance with the applicable laws and regulations, see “– Data Privacy and Security” below for more details and “Risk Factors – Risks Relating to Our Business and Industry – Our business is subject to complex and evolving laws and regulation regarding data security and privacy.” We have built strong big-data analytics capabilities using algorithms, models and data analytics tools. As our business continues to grow, we are well positioned to continue to advance and evolve our data analytics capabilities. Our big-data capacities only leverage device-level information, i.e. the data and information generated from the device during the daily usage by the end users, which is used to support the teaching/learning processes and is not used to match and identify the personal identity of the individuals for advertising or other improper purposes. We only collect personal information on a necessary basis for user identification purpose when the user is activating a device and/or

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registering for the online resources, such as user name, gender and mobile number. We explicitly inform the users about the data to be collected and how it will be used and we obtain consent from the users. For smart learning devices used by schools as a part of the smart classroom solutions, the students will also provide the grade and class he/she is in.

***Precise marketing.*** Our extensive student profile data allow us to visualize students’ learning needs and market trends, which navigate us to form precise marketing and promotional strategies.

***Improving learning material quality.*** Students’ in-class behavior data and their feedback provide an efficient basis for our educational resource research and development crew to review and improve their methods in designing, developing and producing the relevant educational resources in a timely manner. On the other hand, our Readboy Institute of Education Technology also constantly review and analyze such data so as to fine-tune our digital educational resources.

***Empowering individual users.*** With the support our AI technologies, the accumulated device-level information enables the personal student tablets to establish personalized learning model, which generates personalized study reports and learning recommendation accordingly.

***Empowering institutional users.*** Our smart classroom solutions have integrated various modules for administrative functions, including school administration management function, smart exam review, smart lesson preparation function, and auto-scoring function, and class-based learning progress analysis function. Those school teachers are able to leverage the relevant results generated by our smart classroom solutions to further enhance their customized teaching methods and achieve teaching efficiency. This, in turn, strengthens their confidence in us and the stickiness to our education ecosystem. See “– Research and Development” below for more details about these functions.

### **AI-powered Technologies**

Our access to a vast amount of student data enables us to develop and refine robust AI technologies. We have developed a series of AI-driven learning tools to improve teaching and learning efficiency.

***Interactive courseware.*** We have developed a large amount of digital interactive courseware which standardizes learning materials and provides more interaction among teachers and students. Certain of our courseware have also featured with AI voice assistant that enables real-time interaction between the student and the smart device. The exciting while effective learning environment enhanced learning motivation, especially for those students of lower grades.

***Personalized study reports.*** Leveraging our big-data resources and device-level information, we are able to identify each individual user’s learning performance and learning progress, and generate personalized study reports and learning recommendation accordingly.

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### Application of 5G

In anticipation of the era of 5G, we have commenced the development of smart learning devices adopting 5G technologies, which will support faster transmitting speed and lower latency. Such 5G devices, once fully launched to the market, are expected to deliver better user experience, which in turn, further differentiate us from our competitors. In 2021, we introduced our C9 model personal student tablets which is one of the first 5G powered educational tablet models commercialized in China. In the future, we plan to enhance our research and development efforts in 5G technologies and intend to apply AR/VR technologies to further increase the user experience.

In connection with the development of 5G technology and its applications, we have built a darkroom measurement and testing system in 2016 which highly enhanced the testing capability for high-performance signals. We continued to improve the measurement and testing system by upgrading the testing sensors and optimizing the testing system, which further increase the testing accuracy and efficiency.

Our current research focuses on applications of 5G technology in our products and services include:

- Leveraging the fast speed, low latency and high reliability nature of 5G, to considerably improve the users’ visualized and interactive learning experience with our smart learning devices which require massive data exchange among devices and servers generated by AI and other technologies;
- To design and upgrade 5G powered smart learning devices with an eye on future AR (augmented reality) and VR (virtual reality) technologies to be adopted by new forms of educational content, which also require massive and stable data exchange;
- To facilitate the data transfer of 4K and other high resolution video signals, which will significantly improve the video quality on our smart learning devices; and
- With full Wi-Fi coverage on campus, to upgrade the 5G powered smart classroom solutions which provide a more customized and dynamic learning method for students and teachers in schools anytime anywhere.

### Our IT Systems and Infrastructure

We believe that robust and reliable IT systems are essential to sustain our expanding operations. As such, we continuously invest in the development, upgrade and integration of our IT systems. We have established integrated IT systems to support all major aspects of our operations, covering from procurement, manufacturing, inventory management, user data management, to financial data management and other administrative functions.



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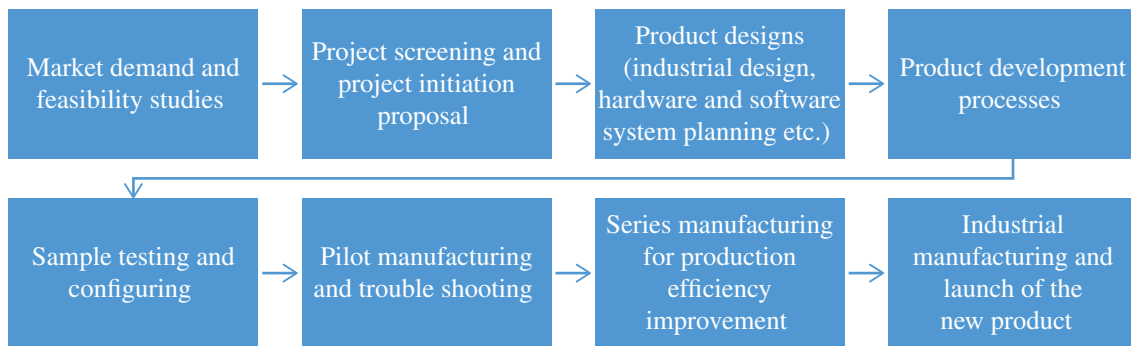
One of our ongoing focuses is to maintain reliable systems. We have implemented performance monitoring for all key IT systems to ensure us to respond quickly if any potential problem occurs. We deploy cloud-based data servers together with local physical data servers located in Zhongshan to archive and process our digitalized data, which provides a flexible and reliable solution for data backup and server failure.

We have established a strong internal IT team and maintained good business relationship with our external IT service providers for technical and equipment support. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material incident to our IT systems that has a material impact on our operations.

## RESEARCH AND DEVELOPMENT

Continuous research and development is fundamental to our brand recognition and is critical in maintaining our market position in our industry. Our research and development efforts focus on the development and improvement of our smarting learning devices embedded with various digital educational resources, which also includes the research and development of IT technologies supporting our operations and products.

Subject to the complexity of each products, it generally takes approximately six months to complete the product design and development process. The following diagram illustrates the major research and development procedures for our smart learning devices:



We believe we have established strong technical advantages. For example, according to Frost & Sullivan, our smart classroom solutions deliver the most comprehensive set of services deploying a number of information technologies, including but not limited to big-data, cloud and AI technologies, among the major smart device service providers in China. Our strong research and development capabilities have yielded a number of advanced high-tech functions utilized by our products. Our current applications of advanced technologies to our smart learning devices include:

- **Smart teaching system.** Our smart teaching system represents the core part of our smart classroom solutions, which includes various modules for administrative functions, such as school administration management function, smart exam review,

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smart lesson preparation function, and auto-scoring function, and class-based learning progress analysis function. Our smart teaching system relies on cloud technologies which ensure the connection and data sync among all tablets within one campus network. Smart exam review function is a powerful tool for school teachers to conduct the review and scoring processes online efficiently. Teachers are able to scan and digitalize the exam papers and complete the scoring process of objective-type questions automatically/semi-automatically by applying the pre-set correct answers. Moreover, by taking advantage of the big-data capacities, the smart exam review function centralizes and analyzes a class-based exam review, such as correct rates, which provides the teachers with a better understanding of learning progress of all students and facilitates them to re-evaluate and improve their teaching methods. The function also could serve as a base for the school to review the performance of its teachers. Smart lesson preparation function, on the other hand, allows all teachers in a school to use a centralized database to share various lesson preparation materials, such as the standardized course syllabus, ready-to-use courseware and other teaching resources, and tutorial schedules. This largely improves the teachers’ efficiency in lesson preparation and ensure the standardization of the teaching materials for students in the same grade which used to vary significantly from teacher to teacher. We have obtained several patents of invention in connection with the technologies adopted in our smart classroom system.

- **Smart and Precise Education Function.** Our smart classroom solutions offer smart and precise education function which generally refers to a series of digital teaching tools the school teachers could adopt to deliver more efficient and more individualized tutoring instruction. Relevant technologies include optical character recognition and image recognition and paring technologies, automatic text paper zoning technology, handwriting recognition technology and so on. According to the Frost & Sullivan Report, we are currently the only company among the major smart device service providers in China that offer smart classroom solutions with such comprehensive smart and precise education function.

We endeavor to continue to enhance our research and development capabilities and deliver products with best-in-class quality and functionality. As of the Latest Practicable Date, our in-house research and development team had a total of 121 employees, approximately 92.6% of which has a bachelor’s degree. During the Track Record Period, we recorded research and development expenses of RMB36.4 million, RMB30.2 million and RMB43.9 million, respectively, in 2019, 2020 and 2021, respectively.

Please refer to “– Our Business – Our Digital Educational Resource Offerings” above for more details about the research and development of our digital educational resources.

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### MARKETING AND BRANDING

We place great emphasis on our brand building and strive to promote our brand awareness among target customers. We primarily attract prospective customers through our well-established brand name, the quality of our products, and the wide range of digital educational resources available on our devices. In addition to word-of-mouth referrals, we also leverage the points of sales controlled by our distributors across the country to promote our brand and products. We partnered with the relevant distributors to organize a number of offline events in the 4S experience stores. From time to time, we invite college students from China’s most reputable universities, such as Peking University and Tsinghua University, to host experience sharing sessions. Such in-store events not only improve the user stickiness and foster the high referral rate among end users.

Our marketing department is leading the establishment of our marketing strategies and we have a dedicated marketing team of 166 personnel as of the Latest Practicable Date. We constantly collect market insights and intelligence from various sources, and analyze the performance and market responses of our products against competitive products, which provides us with a solid basis for product upgrades and improvement of marketing effectiveness. We communicate with our distributors and end customers on a regular basis to understand the feedback and potential customer needs. During the Track Record Period, we placed advertisements to market our products and brand on television, Internet, and other new media channels. In addition, we engaged a number of artists as our brand ambassadors to promote us through different channels.

Our marketing team may design and release our own advertisements or may collaborate third-party advertising agencies to produce advertisements subject to our detailed requirements. To ensure the accuracy of the advertising content to be released to various media channels, our marketing personnel are required to verify the statements, graphics or other materials used in the advertisements, subject to the final approval from our general manager and our internal legal team who should ensure the advertisements, in form and substance, are in compliance with the relevant laws and regulations. Moreover, we have established a dedicated public opinion analysis team led by our human resource department, which is responsible for constantly monitoring the negative publicities on various media channels about our company, our products, our distributors and so on.

### PRICING

We take into account a number of factors in determining the price of our products, including costs relating to procurement and production, market demands, spending patterns of our target consumers, the prices set by major competitors, and the anticipated profit margins for us. We have in place product pricing procedures, pursuant to which, the pricing of a new product model shall be subject to the review of our marketing and finance departments and the final approval of our general manager. In addition, our legal team shall also review and ensure the pricing is in compliance with the relevant laws and regulations.

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We adopt a uniformed selling price strategy and typically offer a discount/rebate rate to our distributors. The purchase prices set for our distributors currently represent approximately 52% of the suggested retail price we set out for end users in the relevant period. Our revenue is stated net of such sales discounts/rebates. In light of the sales by our distributors to end users, we set a suggested retail price for each of our products as well as a maximum retail price that our distributors shall follow. Offline distributors may slightly adjust their selling prices with our prior consent. To avoid unhealthy competition, selling prices of the products available in our online storefronts are generally consistent with that of the products of same model sold to end users through our distributors, both offline and online.

### DATA PRIVACY AND SECURITY

We have accumulated a huge amount of industry insights, student data, including complex students’ learning behavior and performance data, and extensive data on developing digital educational resources. Despite the scale of such data, we maintain a high standard of data protection and privacy and have established and implemented stringent data security policies, covering data collection, processing and usage.

To ensure the confidentiality and integrity of our data, we maintain comprehensive and rigorous data security measures. We anonymize and encrypt confidential personal information and take other necessary technological measures to ensure the secure processing, transmission and usage of data. We have also established stringent internal protocols under which we grant classified access to confidential personal data only to limited employees with access authorization. Without proper authorization, our employees are not allowed to access, transfer or edit any privacy data on our system. They are also not allowed to install unauthorized software and shall update their log-in password on regular basis. Our system will notify relevant IT managers if an irregular operation is identified, such as multiple account breaches or abnormally constant access, and the relevant computer or user account will be automatically locked until the IT managers investigate and confirm the safety of the relevant computer or account. We also encrypt our network to prevent sensitive data leakage from network sniffing. For external interfaces, we utilize firewalls to protect against potential attacks or unauthorized access. We provide regular company-wide training to ensure that all of our employees are well aware of the significance of and the measures we adopt for data security. Moreover, our subsidiaries have obtained the filing certification of information system security multi-level protection from the local Ministry of Public Security of Zhongshan city and Zhuhai city.

We have built a backup system that runs on different servers to minimize the risk of data loss. Our backend security system handles malicious attacks to safeguard the security of our data. See “– Information Technologies and Infrastructure – Our IT Systems and Infrastructure” above for more details.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material hacking incident or IT system failure.

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### INTELLECTUAL PROPERTY

Our trademarks, copyrights, trade secrets and other intellectual property rights distinguish our services and products from those of our competitors and contribute to our competitive advantage in our target markets. To protect our brand and other intellectual property, we rely on a combination of trademark, copyright and trade secrets laws as well as confidentiality agreements with our employees and others. As of the Latest Practicable Date, we had many works of art copyrights and software copyrights in China relating to various aspects of our operations, and 181 main trademark registrations in China, of which “Readboy” been recognized as a “well-known trademark of Guangdong Province.” Our main websites are located at [www.readboy.com](http://www.readboy.com) and [www.readboy.com.cn](http://www.readboy.com.cn). In addition, we have registered other domain names, including [readboykids.com](http://readboykids.com), [readboydata.com](http://readboydata.com) and [okzm.cn](http://okzm.cn).

We have adopted guidelines, procedures and safeguards designed to educate our employees regarding the importance of respecting the intellectual property rights of third parties, and detect and prevent any conduct or activities by our employees that infringe or have the potential to infringe upon such third-party rights. The guidelines specify certain key principles and policies that we require all of our employees to uphold as a fundamental condition of their employment. The procedures and safeguards we have implemented to ensure compliance with these principles and policies include the assignment of dedicated staff to monitor and enforce compliance with these intellectual property guidelines, including in particular our content control group, which reviews our educational resources to ensure that no infringing materials are used in our products. We have also made efforts to ensure that our marketing materials are reviewed and approved by appropriate management before being distributed to the public. We believe these guidelines, procedures and safeguards increase our ability to avoid infringing or potentially infringing activities, reduce our exposure to third party claims and protect our reputation as a company that respects the intellectual property rights of third parties.

### SEASONALITY

Our operations have experienced, and are expected to continue to experience, seasonal fluctuations, primarily in line with the school opening seasons and the changes in students’ purchasing pattern. We typically record year-round highest sales of our smart learning devices during the summer and winter vacations, which run from July to September and January to February of each year, respectively. A significant number of students tend to acquire new learning devices with suitable digital educational resources to get prepared for the upcoming new semesters. In addition, we may also experience seasonal higher sales due to the online promotional events, such as the 11.11 and 618 online shopping festivals led by mainstream e-commerce platforms. We expect the seasonal fluctuations in our operations to continue.

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### CUSTOMERS

Our customers primarily consist of third-party distributors who market and sell our smart learning devices and smart classroom solutions to individual end users and school users, respectively. We also sell products through our online channels directly to end users.

During the Track Record Period, revenue derived from our top five customers or customer groups accounted for 29.5%, 25.9% and 29.8% of our total revenue for the years ended December 31, 2019, 2020 and 2021, respectively. Revenue derived from the respective largest customer or customer group over the same periods accounted for 9.3%, 6.7% and 10.0%, respectively. We have maintained long-term and stable relationships with our customers. As of the Latest Practicable Date, we had an average of approximately 6.8 years of business relationship with our top five customers. During the Track Record Period, all of our top five customers were our distributors.

None of our Directors, their respective associates or any of our shareholders holding more than 5% of our issued share capital after the [REDACTED], to the knowledge of our Directors, held any interests in any of our five largest customers during the Track Record Period.



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The following tables set forth certain information of our five largest customers or customer groups during the Track Record Period.

### For the year ended December 31, 2019

Customer	Background	Registered Capital**	Sales amount (RMB'000)	% of total sales	Products	Length of relationship with us	Major credit terms from invoice date
Customer A*	A state-owned telecommunication enterprise providing full range of telecommunication services nationwide, including mobile voice, Internet and multimedia services and related mobile devices	N/A <sup>(1)</sup>	62,047	9.3	mainly smartwatches	since 2017	payment upon receipt of the invoice
Customer B	A private company located in Shandong Province, specializing in the distribution of a variety of products, mainly mobile devices, teaching materials, computing devices and software and so on	RMB3.0 million	45,826	6.8	all product categories	since 2003	30 days
Customer C	A private company located in Henan Province, specializing in the distribution of electronic products and the provision of related maintenance services	RMB1.0 million	32,969	4.9	all product categories	since 2009	30 days
Customer D*	A private company located in Hunan Province, specializing in the distribution of electronic products and the provision of related services	consisted of two companies with registered capital of RMB1.0 million and RMB550,000, respectively	29,428	4.4	all product categories	since 2016	30 days
Customer E*	A private company located in Jiangxi Province, specializing in the distribution of electronic products and the provision of related services	consisted of four companies with registered capital of RMB1.0 million, RMB0.5 million, RMB1.0 million and RMB30,000, respectively	27,732	4.1	all product categories	since 2009	30 days

- (1) Consisted of three companies, one has a registered capital of RMB620 million with the remaining two having no publicly available information for the registered capital in 2019; the holding company of such Customer A is a state-owned company listed on the New York Stock Exchange and the Hong Kong Stock Exchange, based on publicly available information, in 2019, total assets, total net assets and net profit of the listed holding company was RMB1,593,940 million, RMB1,071,989 million and RMB106,475 million, respectively.

**BUSINESS**

**For the year ended December 31, 2020**

Customer	Background	Registered Capital**	Sales amount	% of total sales	Products	Length of relationship with us	Major credit terms from invoice date
			(RMB'000)				
Customer C	A private company located in Henan Province, specializing in the distribution of electronic products and the provision of related maintenance services	RMB1.0 million	49,326	6.7	all product categories	since 2009	30 days
Customer B	A private company located in Shandong Province, specializing in the distribution of a variety of products, mainly mobile devices, teaching materials, computing devices and software and so on	RMB3.0 million	41,005	5.6	all product categories	since 2003	30 days
Customer F	A private company located in Guangdong Province, specializing in the distribution of electronic products and the provision of related maintenance services	RMB1.0 million	36,854	5.0	all product categories	since 2015	30 days
Customer D	A private company located in Hunan Province, specializing in the distribution of electronic products and the provision of related services	RMB1.0 million	33,881	4.6	all product categories	since 2016	30 days
Customer E*	A private company located in Jiangxi Province, specializing in the distribution of electronic products and the provision of related services	consisted of four companies with registered capital of RMB1.0 million, RMB0.5 million, RMB1.0 million and RMB30,000, respectively	29,292	4.0	all product categories	since 2013	30 days

**BUSINESS**

**For the year ended December 31, 2021**

Customer	Background	Registered Capital**	Sales amount (RMB'000)	% of total sales	Products	Length of relationship with us	Major credit terms from invoice date
Customer C	A private company located in Henan Province, specializing in the distribution of electronic products and the provision of related maintenance services	RMB1.0 million	81,567	10.0	all product categories	since 2009	30 days
Customer B	A private company located in Shandong Province, specializing in the distribution of a variety of products, mainly mobile devices, teaching materials, computing devices and software and so on	RMB3.0 million	61,934	7.6	all product categories	since 2003	30 days
Customer F	A private company located in Guangdong Province, specializing in the distribution of electronic products and the provision of related maintenance services	RMB1.0 million	36,307	4.5	all product categories	since 2015	30 days
Customer E*	A private company located in Jiangxi Province, specializing in the distribution of electronic products and the provision of related services	consisted of four companies with registered capital of RMB1.0 million, RMB0.5 million, RMB1.0 million and RMB30,000, respectively	32,031	3.9	all product categories	since 2009	30 days
Customer G	A private company located in Hebei Province, specializing in the distribution of electronic products and the provision of related services	RMB3.0 million	30,782	3.8	all product categories	since 2010	30 days

\* Represented a customer group consisted of multiple companies under common control.

\*\* Based on publicly available information.

## **BUSINESS**

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### **Customer Services**

We endeavor to delivery high quality products and outstanding services to our customers. With respect to our distributors, we maintain a marketing support, customer service and supervisor team currently comprising of 124 people who are assigned to support and monitor the distributors and promptly act in response to their suggestions or enquiries.

With respect to individual end users, we proactively interact with them mainly through our official website and mobile APP and various social media platforms, such as our official accounts on WeChat, Weibo and TikTok. We operate a customer service hotline to respond to their inquiries and complaints and to collect their feedback. We typically require our customer service staff to respond and report internally to the relevant departments within 24 hours. We also rely on our distributors to provide customer services through their points of sales.

### **SUPPLIERS**

#### **Procurement**

Our raw materials primarily consist of custom metal and plastic components, electronic components, lithium-ion batteries, liquid crystal displays and so on. Raw materials essential to our business are generally available from multiple sources, and we currently do not rely on any single supplier for key raw materials. However, we have been competing for various components with other participants in the markets from time to time. Therefore, certain components used by us, even available from multiple sources, may be at times subject to industry-wide shortage and significant commodity pricing fluctuations. Substantially all of our suppliers are located in mainland China, though some raw materials may be sourced from overseas.

We implement collective procurement policy to procure key raw materials which ensures us to better control quality and obtain more favorable prices by leveraging our operational scale. We adopt prudent procurement policies, and generally procure raw materials based on our projected volumes of sales to customers. We typically enter into purchase agreements or purchase orders with our suppliers. Purchase agreements generally have a term of two years, subject to automatic renewal upon mutual agreement.

For the years ended December 31, 2019, 2020 and 2021, cost of raw materials amounted to RMB429.4 million, RMB459.4 million and RMB564.8 million, respectively, representing 86.7%, 86.3% and 87.7%, respectively, of total cost of sales for the same periods.

## BUSINESS

### Suppliers

We have established a dedicated procurement team at our headquarters. We generally approach and identify suppliers through our market research and word-of-mouth referrals. Prior to entering into the procurement contract with a potential supplier, we evaluate the candidate based on a number of factors, including its overall track record, technical strengths, production capacity, ability to control quality and timely delivery, and prices. We may also request the candidate to provide certain samples for inspection.

We closely communicate with and monitor our suppliers and perform monthly evaluation to ensure the raw materials provided by them meet our stringent internal and relevant national quality standards. We may consider to terminate the business relationship with the suppliers who fail to meet our quality standards. We currently maintain cooperative relationships with approximately 220 third-party suppliers.

During the Track Record Period, purchases from our top five third-party suppliers in terms of dollar amount in aggregate accounted for approximately 27.3%, 28.3% and 26.1%, respectively, of our total purchase costs in 2019, 2020 and 2021. Purchase from the respective largest supplier in terms of dollar amount accounted for approximately 7.9%, 6.7% and 12.7%, respectively, of our total purchase costs in such periods. As of the Latest Practicable Date, we had an average of approximately 4.2 years of business relationship with our top five suppliers.

The following tables set forth certain information of our five largest suppliers or supplier groups during the Track Record Period.

#### For the year ended December 31, 2019

Supplier	Background	Purchased amount	% of total purchases	Products/ services provided	Relationship with us	Major credit terms from invoice date
<i>(RMB'0000)</i>						
Supplier A	A private company located in Guangdong Province, specializing in the development and distribution of LCD displays	59,772	7.9	LCD displays	since 2016	30 days
Supplier B*	A private company located in Guangdong Province and Hong Kong, specializing in the development and distribution of telecommunication related products	44,959	6.0	circuit board and related products	since 2016	21 days or 7 days upon receipt of the products depending on the companies
Supplier C	A private company located in Guangdong Province, specializing in the manufacturing and distribution of precision electronics, plastic and rubber components and parts	36,126	4.8	metal shell	since 2017	30 days

**BUSINESS**

Supplier	Background	Purchased amount	% of total purchases	Products/ services provided	Relationship with us	Major credit terms from invoice date
		<i>(RMB'0000)</i>				
Supplier D	A private company located in Shanghai, specializing in the distribution of telecommunication related products	35,395	4.7	circuit board and related products	since 2017	7 days upon receipt of the products, with 30% prepayments
Supplier E	A private company located in Guangdong Province, specializing in the development and distribution of electronic and lighting devices and parts	29,235	3.9	LCD displays	since 2017	30 days

**For the year ended December 31, 2020**

Supplier	Background	Purchased amount	% of total purchases	Products/ services provided	Relationship with us	Major credit terms from invoice date
		<i>(RMB'0000)</i>				
Supplier C	A private company located in Guangdong Province, specializing in the manufacturing and distribution of precision electronics, plastic and rubber components and parts	43,768	6.7	metal shell	since 2017	monthly settlement
Supplier A	A private company located in Guangdong Province, specializing in the development and distribution of LCD displays	42,412	6.5	LCD displays	since 2016	monthly settlement
Supplier F	A private company located in Guangdong Province, specializing in the distribution of telecommunication related products	41,433	6.3	LCD displays	since 2017	7 days upon receipt of the products
Supplier G*	A private company located in Chongqing and Hong Kong, specializing in the development and distribution of electronic devices and the provision of information technology related consulting and development services	34,585	5.3	integrated circuit	since 2020	7 days upon receipt of the products
Supplier H	A private company located in Guangdong Province, specializing in the development and distribution of telecommunication related products	23,192	3.5	integrated circuit	since 2019	7 days upon receipt of the products



**BUSINESS**

**For the year ended December 31, 2021**

Supplier	Background	Purchase amount	% of total purchases	Products/services provided	Length of relationship with us	Credit terms from invoice date
		<i>(RMB'000)</i>				
Supplier F	A private company located in Guangdong Province, specializing in the distribution of telecommunication related products	118,887	12.7	LCD displays	since 2017	7 days upon receipt of the products
Supplier A	A private company located in Guangdong Province, specializing in the development and distribution of LCD displays	43,576	4.6	LCD displays	since 2016	monthly settlement
Supplier C	A private company located in Guangdong Province, specializing in the manufacturing and distribution of precision electronics, plastic and rubber components and parts	27,884	3.0	metal shell	since 2017	monthly settlement
Supplier I	A private company located in Guangdong Province, specializing in the development and distribution of battery, plastic and rubber components and parts, and accessory products for mobile phones	27,852	3.0	battery and related products	since 2020	monthly settlement
Supplier J	A private company located in Guangdong Province, specializing in the development and distribution of chipset, electronics, digital and electronic products	26,856	2.8	integrated circuit related products	since 2020	monthly settlement

\* Represented a supplier group consisted of multiple companies under common control.

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None of our Directors, their respective associates or any of our shareholders holding more than 5% of our issued share capital after the [REDACTED], to the knowledge of our Directors, held any interests in any of our five largest suppliers during the Track Record Period. During the Track Record Period, none of major suppliers was at the same time our major customers.

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any material delay or shortage in the supply of any raw materials that interrupts our business operations.

### INVENTORY MANAGEMENT

Our inventories primarily consist of raw materials, packaging materials, semi-finished products and finished products. We use our information management middle-platform to track our inventory level, which enables us to monitor our inventory on a timely basis in order to maintain sufficient levels of raw materials, finished and semi-finished products. We procure raw materials and plan our production activities based on our sales forecasts as well as the actual sales activities and purchase orders. Subject to the availability of the raw materials, we usually maintain a total of one- to three-month's worth of main raw materials that are commodities and one-month's worth of other raw materials as a safety inventory level, which is the estimated amount of raw materials we consider necessary to meet any increase in demand for products, and to ensure that there are no disruptions in supply of products. This safety inventory level is estimated based on our historical sales and future projections. Once the finished products are produced, we endeavor to deliver them to our customers at the earliest possible time. We believe that we manage our inventory at a reasonable level based on historical sales and management's assessment, which minimizes storage space, carrying costs, and enhances working capital efficiency.

Leveraging the information management system connecting the points of sales to our operating system, we are able to manage the inventory level of our distributors through review of their monthly sales reports and regular communication with the responsible personnel.

### QUALITY CONTROL AND PRODUCT WARRANTY

#### Quality Control

We implement stringent product safety and quality control standards and measures throughout our entire production and assembly processing processes, covering from supply chain, manufacturing, inventory to logistics, to ensure the full safety and high quality of our products. We conduct sample inspection on each batch of the raw materials upon delivery and will decline to accept such materials in case of any defects. With respect to the production and assembly, we have been accredited with ISO 9001 and ISO 14001 accreditation from SGS, a world's leading inspection, verification, testing and certification entity. All of our product models have obtained the 3C quality assurance certificate. We have passed the inspections conducted from time to time by local and national SAR and other government authorities.

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We have a designated quality control team over 50 personnel, which is primarily responsible for formulating and supervising our quality management system, and conducting various inspections on raw materials, work-in-progress and finished products in accordance with our internal and relevant national quality standards. There is also a testing team designing and performing reliability tests on sample products to ensure that all software and hardware embedded can work properly. Moreover, our quality control team is also responsible for the maintenance and renewal of our quality standards.

As a result of our commitment to stringent quality control, during the Track Record Period and up to the Latest Practicable Date, we did not, due to material product quality issues, (i) receive fines, product recall orders or other penalties from the PRC government or other regulatory bodies, (ii) receive any material products return requests from our distributors or customers or (iii) receive any material complaints from consumers in terms of product quality.

### **Product Return and Warranty**

We are obliged to comply with the after-sales warranty policies as required by the relevant government authorities and our products are generally subject to the 3R policies that if a device, in its original condition and without man-made damages, is found to have performance failure, it (i) may be returned and refunded with no reason within seven days, (ii) may be replaced for quality issue within 15 days, and (iii) is subject to warranty services of repair for free for malfunction under normal usage within one year, in each case, from the date of purchase. We also offer out-of-warranty repair services but will charge certain service fees. In addition, our end users may contact us for product warranty service information conveniently through the pre-installed help function on their devices.

Historically, our end users may make the return to the relevant distributors and make replacement or repair claims through the relevant distributors who sold the devices. Lately, we launched the mail-in repair and maintenance services that our end users may directly contact us for such 3R services.

Moreover, for end users who purchase from our self-operated online channels, we also offer certain additional warranty services subject to the rules of each e-commerce platforms.

During the Track Record Period, we did not experience any material product return or replacement claim, nor did we receive any material warranty claim or conduct any product recalls.

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### AWARDS AND RECOGNITIONS

The table below sets forth some of our major awards and recognitions as of the Latest Practicable Date.

<u>Awards/Recognitions</u>	<u>Awarding Institutions/Authority</u>	<u>Date</u>
Guangdong Intellectual Property Demonstration Enterprise	Guangdong Intellectual Property Protection Association	December 2021
Model Innovative Company of Zhongshan	Science and Technology Bureau of Zhongshan City	December 2020
Anti-pandemic Social Responsible Award among China Education Companies	Good Education of China	September 2020
Enterprise with Good Credit in Honoring Contracts in Guangdong Province	Guangdong Administration for Market Regulation	2007 to 2019
Most Trusted Education Brand in 2019	The 10th Xinhua Education Forum by Xinhua.net	November 2019
Parents’ Most Trusted Education Brand for Children in 2018	Tencent Education Ceremony by Tencent Education Channel	November 2019
Education Brand with Leading Technologies in 2018	Tencent Education Ceremony by Tencent Education Channel	November 2019
Famous Brand of Guangdong Province	Guangdong Administration for Industry and Commerce	December 2014
Innovative Industry Demonstration Base for Privately-owned Enterprises of Guangdong Province	Guangdong Commission of Economy and Informatization	December 2013
High and New Tech Enterprise of Guangdong Province	Department of Science and Technology of Guangdong Province	December 2008
High Quality Famous Brand of China	National High Quality Famous Brand Joint Unit	December 2008

## BUSINESS

### LICENSES, APPROVALS AND PERMITS

We are required to maintain various licenses, approvals and permits in order to operate our business. Our legal department is responsible for monitoring the validity status of our licenses and permits and make timely applications for renewal to relevant government authorities. As of the Latest Practicable Date, we had obtained the requisite licenses, approvals and permits from relevant authorities that are material to our operations in the PRC and such licenses, approvals, and permits were valid and remain in effect as of the Latest Practicable Date.

Please refer to the section headed “Regulatory Overview” for further information on the laws and regulations that we are subject to.

### EMPLOYEES

We had 556, 595 and 574 full-time employees as of December 31, 2019, 2020 and 2021, respectively. We had 548 full-time employees as of the Latest Practicable Date, including 47 full-time educational resource research and development crew. Substantially all of our employees are located in China.

The table below sets forth our full-time employees by functions as of the Latest Practicable Date.

<u>Department/Function</u>	<u>Number of Employees</u>	<u>%</u>
Administration	20	3.6%
Finance	9	1.6%
Marketing support and customer service and distributor supervision	166	30.3%
Institute of Education Technology and educational resource research and development crew	47	8.6%
Research and development (devices and related operating systems) and IT	121	22.1%
Logistic arrangement and support	25	4.6%
Production and assembly	125	22.8%
Quality control	35	6.4%
<b>Total</b>	<b>548</b>	<b>100%</b>

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## BUSINESS

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We enter into employment contracts with our full-time employees which contain standard confidentiality provisions. We also enter into standalone confidentiality agreements with key management and research and development staff.

We have in place an anti-bribery and corruption policy that our employees should comply with to safeguard against any corruption within our company. The policy explains potential bribery and corruption conducts, including but not limited to receiving kick-backs, embezzlement and misappropriation, engage or cause to engage fictitious transactions or false accounting. Our policy also specifies the anti-bribery and corruption investigation procedures and measures. We make our internal reporting channel open and available for all of our staff to report any bribery and corruption acts. To this end, we have established a whistleblower hotline and email address. Our internal audit team is mainly responsible for the internal investigations. In addition, we have also established the anti-bribery and corruption policy that will be distributed to our business partners, including our distributors, suppliers and consultants, and urge those parties to comply with such policy in order to jointly foster a healthy business environment. The policy explains potential bribery and corruption conducts they should not carry out when they transact with us, such as paying cash, giving extravagant or inappropriate gifts or entertainment to our employees, government officers or other parties with corrupt intention. If there is any material violation against our anti-bribery and corruption policy by our business partners, we may notify such party to rectify immediately, and under severe circumstance, may terminate the business relationship. We have established a whistleblower hotline and email address that our business partners could report any potential corruptive misconducts to our internal audit term.

We believe our success, to a considerable extent, depends upon our ability to attract, motivate and retain a sufficient number of qualified employees. During the Track Record Period, we recruited our employees primarily through on-campus recruiting programs, advertisements on recruitment websites and headhunters. We are committed to providing fair and equal opportunities in all of our employment practices and have adopted policies and procedures to ensure a fair hiring, selection and promotion process. As part of our retention policies, we provide various tailored training programs to employees of different departments and positions, in order to enhance their professional skill sets and the understanding of our company culture and the industry.

As required by regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments for our PRC-based full-time employees, including pension, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing fund. We are required under PRC law to make contributions to employee benefit plans for our PRC-based fulltime employees at specified percentages of the salaries, bonuses and certain allowances of such employees, up to a maximum amount specified by the local governments in China.



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One of our subsidiaries has established labor unions that represent the relevant employees with respect to labor disputes and other employee matters. Relevant employees are also covered by collective bargaining agreements. We believe we have maintained a good relationship with our employees and we did not have any material labor dispute during the Track Record Period.

### INSURANCE

We have purchased employer liability insurances covering all of our employees. We also provide social security insurance for our employees as required by PRC law. We review our insurance policies from time to time for adequacy in the breadth of coverage. Please refer to the section headed “Risk Factors – Risks relating to our Business and Industry – We have limited insurance to cover our potential losses and claims” for further details.

We consider our insurance coverage to be adequate and is standard for our industry. During the Track Record Period and up to the Latest Practicable Date, we had not made, neither had we been the subject of, any insurance claims which are of a material nature to us. We consider our insurance coverage to be in line with that of peer industry players in China.

### COMPETITION

The smart learning device service industry in China is rapidly evolving and relatively fragmented at current stage. According to the Frost & Sullivan Report, in terms of total retailing market value in 2021, the top five smart learning device service providers accounted for close to 50% of the market share. But except for the largest player, each of the remaining players occupied a market share less than 10%. According to the Frost & Sullivan Report, we ranked second among China’s smart learning device service providers in terms of total retailing market value and ranked fifth among China’s smart learning device service providers in terms of total device shipment in 2021.

We face competition not only from existing domestic smart learning device education service providers, but also from new comers who may have little or no experience in hardware, such as previously online education service providers. We compete primarily on a number of factors, including the quality and experience of our product design crew, educational resource research and development crew, the scope and quality of our smart learning devices and educational resources, our technology infrastructure and data analytics capabilities, our brand recognition, competitive prices, as well as the scalability and efficiency of our distribution network. Some of our competitors may have access to greater financial resources, ability and experience in content and product innovation, being a significant challenge to us. Nevertheless, we believe that our well-recognized brand name which is associated with high quality and diverse product offering, strong research and development capabilities, extensive distribution network have established strong barriers to entry and distinguished us from our competitors.

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## BUSINESS

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### PROPERTY, PLANTS AND EQUIPMENT

#### Owned Properties

As of the Latest Practicable Date, we obtained the property title certificates for two properties with an aggregate GFA of approximately 32,213 sq.m., located in Zhongshan and Wuhan cities in China. The property located in Zhongshan city is primarily used as production and assembly facilities, warehouses and offices and dormitories and the property in Wuhan city is held by us as investment for rental incomes.

In addition, as of the Latest Practicable Date, we were in the process of completing the transaction in connection with the purchase of one property located in Huanggang city, for which we had not received the relevant property title certificate. The property has a total gross floor area of approximately 1,748 sq.m. and we expect to use it as our office space. We do not expect there will be any obstacle for us to obtain the relevant property title certificate. Our PRC Legal Advisor confirmed that, save as disclosed in this document, we had obtained all certificates of real estate registration of the above mentioned properties and land use right.

As the carrying amount of the properties owned by us located in Wuhan city, which is held by us as investment for rental income, accounted for 1% or more of our Group's total assets and therefore, a property valuation report on such property interests is included in Appendix III to this document pursuant to Rule 5.01A(1) of the Listing Rules. According to the property valuation report, the property was valued at RMB20.7 million as of February 28, 2022.

#### Leased Properties

As of the Latest Practicable Date, we had entered into six lease agreements to lease properties with an aggregate GFA of approximately 2,551.9 sq.m. from third parties, including one of our related parties, to support our business activities and operations in China. These leased properties are mainly used as office spaces. Such properties are located in Zhuhai and Beijing. The leases have a term of/ranging from one year to seven years. We will consider to renew the leases upon their expiry.

In addition, as of the Latest Practicable Date, we also entered into three lease agreements as the landlord to lease the properties to third parties. Such properties have a total gross floor area of approximately 2,726 sq.m.

As of the Latest Practicable Date, all of these nine lease agreements had not been registered and filed with the relevant land and real estate administration bureaus in the PRC. With respect to the leases under which we are the tenant, the relevant landlords failed to provide necessary documents for us to register the leases with the local government authorities. With respect to one of the leases under which we are the landlord, the relevant tenant failed to cooperate with us to provide requisite documents for the purpose of registering the lease. As advised by our PRC Legal Advisor, failure to complete the registration and filing of lease agreements will not affect the validity of such leases or result in our being required to vacate the leased properties.

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However, the relevant government authorities may impose a penalty ranging from RMB1,000 to RMB10,000 on each lease agreement that is not registered and filed. The aggregate amount of maximum fine will be approximately RMB90,000. Based on the number of these properties and the cities where they are located, we believe the failure to register and file all the relevant lease agreements will not have a material and adverse effect on our business operations.

### **LEGAL AND ADMINISTRATIVE PROCEEDINGS**

From time to time, we may be subject to legal or regulatory proceedings, investigations and claims incidental to the conduct of our business. For example, in 2019, two publishers brought lawsuits against us with local people's courts, claiming that we had violated the copyrights relating to certain content owned by them by duplicating and distributing such content without their authorization. We decided to settle with those counter parties and agreed to pay the settlement fee in an aggregate amount of approximately RMB0.6 million. We had fully paid up the settlement fee by the end of 2019. Since these lawsuits were settled by mediation and case withdrawal by the plaintiffs, in terms of either case, no court decision was made to determine whether we have infringed the copyright of the plaintiffs. We decided to make the settlement with the plaintiffs mainly because we intended to minimize the potential damage to our reputation arising from the lawsuits and to maintain a healthy business relationship with all interested parties in our industry.

In addition, in late 2020, a third party brought a lawsuit against us, claiming that one of our smartwatch product model had infringed its design patent and requested us, among others, to rectify the infringement and pay a compensation. In June 2021, we received a decision from the relevant court in favor of the plaintiff and ordered us to pay a compensation. In November 2021, we received a court decision after our appeal in favor of the plaintiff. We were ordered to make a compensation in the amount of RMB0.3 million which had been fully paid as of the Latest Practicable Date. Despite the lawsuit, the sales volume of this smartwatch model was very limited in a total amount of less than 150 units before we stopped to sell this model due to this lawsuit. We believe the adverse impact of stop selling this model on us is insignificant.

We believe the aggregate amount we incurred in connection with the above-mentioned lawsuits during the Track Record Period is insignificant.

### **Enhanced Internal Control Measures for Intellectual Property Protection**

We believe the above-mentioned lawsuits with publishers occurred mainly because the personnel from our educational resource research and development team then in charge of reviewing the relevant education content sourced from third parties lacked practical skills in differentiating common knowledge from copyrighted content. None of our Directors were personally involved in these incidents. We demoted the then department head of our Readboy Institute of Education Technology and have adopted enhanced measures since then to prevent future occurrence of such incidents.

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## BUSINESS

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Our legal team will organize annual trainings on intellectual property rights for employees from departments of research and development, our Readboy Institute of Education Technology, marketing and administration. Such trainings cover topics from basis explanation of intellectual property protection, classification of intellectual property rights, application regulations and laws and their implementation, to reasonable use and infringement of intellectual property rights. In addition, our legal team will also conduct regular communications with relevant personnel to provide legal supports in a timely manner during their daily operations, such as advice on patent protection for product designs and technologies for research personnel, or citation of third-party content for content development personnel. All of these measures enhance the awareness of our employees and minimize the risks of potential infringements. Moreover, the contracts with our educational resource research and development crew and other relevant parties generally contain terms specifying the rights and duties of both parties and the ownership of the intellectual property arising out of the performance of the contracts. For example, pursuant to the employment agreements with our educational resource research and development, we are entitled to the ownership of the intellectual properties arising out of the performance of the agreements, such as the educational content in audio, video, written or other forms. Our agreements also typically provide that if the crew or other relevant parties infringe a third party’s intellectual property right when performing their duties under the agreements, we are entitled to terminate the agreements and claim the damages we have incurred resulting from such infringement. Finally, our legal team will conduct, or engage outside intellectual property agencies, to conduct public searches on websites or public data of intellectual properties, including but not limited to patents of invention or copyrights, on a regular basis, so as to further reduce the risks of unknowingly causing intellectual property infringement in the future.

In addition, in 2020, mainly due to the disagreement on the quality of services provided, an independent individual brought a lawsuit against us with local people’s court, claiming that we delayed in making the payment under a technology services contract. The lawsuit had been settled in late 2020 and we made the payment of service fee and related interest in an aggregate amount of RMB0.5 million.

We believe the aggregate amount we incurred in connection with the settlement of lawsuits during the Track Record Period is insignificant.

Our Directors have confirmed that, as of the Latest Practicable Date, there was no legal proceeding pending or threatened against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

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## BUSINESS

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### ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

#### Our ESG Governance

We are committed to promoting corporate social responsibility and sustainable development and integrating it into all major aspects of our business operations. Corporate social responsibility is viewed as part of our core growth philosophy that will be pivotal to our ability to create sustainable value for our Shareholders by embracing diversity and public interests. In order to ensure the Group’s governance regarding environmental, social and governance (“**ESG**”) issues, our Board of Directors has established a ESG Committee responsible for overseeing, evaluating and managing ESG issues. Led by our Directors Ms. Liu Zhilan, Mr. Deng Denghui and Mr. Shen Jianfei, our ESG Committee is responsible for overseeing and guiding our Company’s ESG initiatives.

Our Board of Directors has adopted a set of terms of reference setting out the principal duties and responsibilities of our ESG Committee, which include but not limited to the following:

- formulating and adopting a comprehensive policy on environmental, social and corporate governance responsibilities (the “**ESG Policy**”);
- keeping abreast of latest ESG-related laws and regulations, including the applicable sections of the Listing Rules, keeping the Board informed of any changes in such laws and regulations and updating our ESG Policy in accordance with the latest regulatory updates;
- identifying our Group’s key stakeholders based on our business operations, the communication channels to engage with them with respect to ESG matters;
- assessing ESG-related risks and opportunities on a regular basis according to applicable laws, regulations and policies, especially risks in relation to climate changes, to ensure our responsibilities with respect to ESG matters are met;
- monitoring the effectiveness and ensuring the implementation of our ESG Policy;
- preparing and reviewing the ESG report; and
- reporting to our management on an annual basis on the implementation of our ESG Policy.

During the Track Record Period and up to the Latest Practicable Date, we had not been materially adversely impacted by any ESG-related incidents.

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Our business is subject to relevant PRC national and local environmental laws and regulations which, among other things, require the payment of fees in connection with activities that discharge waste materials and which impose fines and other penalties on facilities that threaten the environment. In an effort to ensure the safety of our employees, we have established a series of safety guidelines, rules and procedures for different aspects of our production and assembly activities, including fire safety, work-related injuries, electricity safety and emergency and evacuation procedures. We also carry out equipment maintenance regularly to ensure that such equipment is safe for employees' use. We have implemented stringent waste treatment procedures in our production and assembly facilities.

### **Environmental Protection**

We recognize the importance of environmental protection and sustainability, and our commitment to environmental protection and sustainability was recognized by ISO14001:2015 – Environmental Management System Certification.

During the Track Record Period and up to the Latest Practicable Date, we had produced the following pollutants, which have been dealt with through the implementation of corresponding environmental measures:

### **Management of Solid Waste**

We generated solid waste during our production processes. Some of them are potentially hazardous, including waste circuit boards and other electronic components, waste lead-free solder paste packing, waste pipes, waste rags and packaging containing detergents and waste defective goods. All hazardous wastes were collected and processed by a third party qualified contractor. The other non-hazardous wastes from our production included ordinary industrial waste and domestic solid waste, which were collected and processed by the city sanitation department.

### **Management of Sewage**

We did not generate industrial sewage during our production processes. The other sewage generated was domestic sewage, which was processed in our sewage treatment facilities at our production and assembly facility until its quality reaches the national standard and the relevant standards specified by the local sewage treatment plant which will handle treated sewage for further treatment and discharge.

### **Management of Waste Gas**

Waste gas containing VOCs, ozone and tin was generated during the production process. We adopt measures to minimize the impact of the waste gas, including improving ventilation in the production plant and installing waste gas treatment facilities.



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During the Track Record Period, we did not have any non-compliance incidents arising from waste and water emission and the discharge of each of the key pollutants generated during our production process had remained within prescribed regulatory limits. In addition, our production and assembly facility has obtained the required permits for waste and water emission from the relevant authorities. We believe that our business operations do not have a material adverse impact on the environment.

### **Metrics and Targets**

We believe in the importance of caring for our planet and we strive to balance our role as a for-profit company with the betterment of people of the planet. We monitor the following metrics to assess and managing the environmental and climate-related risks arising from our business and manufacturing operations:

#### *Power Usage*

Our PRC Legal Advisor has advised us that local governments across China may from time to time promulgate regional regulations and policies or launch various initiatives and campaigns that call for power conservation. We evaluate our electricity consumption in accordance with relevant regulations and policies and endeavor to proactively conserve energy in response to the government’s initiatives. We monitor our electricity consumption levels at the production and assembly facility and implement measures such as promoting use of natural lighting, reducing the use of air-conditioners and electronic equipment during non-working hours. To further enhance employees’ awareness of the importance of energy conservation, we have promulgated an internal guideline to promote efficient use of electricity and set annual electricity saving targets. In the years ended December 31, 2020 and 2021, our average electricity consumption levels were approximately 2.0 million kWh and 2.2 million kWh, respectively. We intend to continue to reduce the level of our average annual electricity consumption at the production and assembly facility over the next three years.

#### *Water Usage*

Our PRC Legal Advisor has advised us that local governments across China may from time to time promulgate regional regulations and policies or launch various initiatives and campaigns that call for water conservation. We evaluate our water consumption in accordance with relevant regulations and policies and voluntarily take on our social responsibilities to practice water conservation. We set annual water saving targets and monitor our water consumption levels at the production and assembly facility to reduce water consumption levels. We intend to organize more activities and events to foster water conservation culture in our Group. In the years ended December 31, 2020 and 2021, our average water consumption levels were approximately 85 thousand tons, and 66 thousand tons, respectively. We intend to continue to reduce the level of our average annual water consumption at the production and assembly facility over the next three years.

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### ***Waste Management***

We endeavor to minimize the negative impact on the environment through closely monitoring. We monitor our sewage and hazardous waste discharge levels on a periodic basis. In the years ended December 31, 2020 and 2021, our average sewage discharge levels were approximately 85 thousand tons and 66 thousand tons, respectively, and such sewage was properly treated prior to discharge. In the years ended December 31, 2020 and 2021, our hazardous waste discharge levels were 0.1075 tons and 0.4085 tons, and such hazardous wastes were collected and processed by a third party qualified contractor. We engage a third party qualified contractor every year to conduct on-site sampling and measurement of sewage and waste gas discharge levels at the production and assembly facility to ensure the discharge levels are in accordance with the prescribed regulatory limits.

### **Social Responsibility**

We have been actively participating in social causes. In the year of 2020, we have proactively participated in various local governments’ campaigns in response to the COVID-19 outbreak. We took the initiative to provide free courseware and learning resources to students to facilitate learning at home when school classes were suspended during the pandemic. Due to our efforts in connection with fulfilling our social responsibilities, we were awarded the title of “2020 Enterprise with Outstanding Contributions to Anti-epidemic” (2020抗疫傑出貢獻企業) granted by the Organizing Committee of the 10th China Charity Festival (第十屆中國公益節組委會).

### **Governance**

We are also committed to minimizing environmental impacts and ensuring sustainability in our supply chain, and are careful to choose suppliers that are environmentally responsible. We apply stringent environmental criteria to the selection of our suppliers and have included environmental responsibility and product safety stipulations as part of our standard supplier contracts, where suppliers are required to comply with the applicable PRC environmental laws and requirements. In the event of non-compliance, we have the right to return the products to the suppliers.

Upon [REDACTED], our Directors confirm they will closely monitor and ensure strict compliance with Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules, the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules and all relevant rules and regulations in relation to environmental, social and governance aspects.

### **Occupational Health and Safety**

We have implemented stringent work safety policies and procedures for our production and assembly processes, including fire safety, work-related injuries, electricity safety and emergency and evacuation procedures. We provide our employees with occupational safety

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education and training to enhance their awareness of safety issues. We also carry out equipment maintenance on a regular basis to ensure their smooth and safe operation. We have implemented stringent waste treatment procedures in our production and assembly facility.

As of the Latest Practicable Date, we had complied with applicable laws and regulations on occupational health and work safety in all material respects. During the Track Record Period, we did not record any material accidents. As of the Latest Practicable Date, no material claims had been brought against us as a result of an accident.

### **Management of Environmental and Climate-Related risks**

The environmental and climate-related risks can be divided into two major categories: (i) risks related to the transition to a lower-carbon economy and (ii) risks related to the physical impacts of climate change.

#### *(i) Transition risks*

Transitioning to a lower-carbon economy, extensive policy, legal, technology, and market changes may take place to address mitigation and adaptation requirements related to climate changes. Transition risks related to policy change include any risk that the environmental laws and regulations in the PRC may be amended from time to time and changes in those laws and regulations may cause us to incur additional costs in order to comply with the more stringent rules. Any failure to comply with environmental regulations would expose us to penalties, fines, suspensions or actions in other forms.

#### *(ii) Physical risks*

We may face climate-related physical risks with financial implications, such as direct damage to assets and indirect impacts from supply chain disruption. Our financial performance may be affected by changes in water availability, sourcing, and quality, or extreme temperature changes affecting the premises, operations, supply chain, transport needs, and employee safety. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any difficulty in water availability, sourcing and quality, and we did not encounter any extreme temperature changes affecting the premises, operations, supply chain, transport needs, and employee safety that materially and adversely affecting our operation. We recognized our social responsibility on climate change, and our role in assessing and managing these environmental and climate-related risks. We will continue to assess and manage the environmental and climate-related risks posed to our Group in the future.

### **NON-COMPLIANCE INCIDENTS**

As of the Latest Practicable Date and save as disclosed herein, we have complied with the relevant PRC laws and regulation in all material respects and have obtained all requisite licenses, approvals and permits from relevant authorities that are material to our operations in China.

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### **Failure to make full contribution to social insurance premiums and housing provident funds for all employees**

During the Track Record Period, we failed to make full contribution to the social insurance premiums and housing provident funds for certain employees based on the statutory contribution bases. In 2019, 2020 and 2021, the shortfall was estimated at RMB5.2 million, RMB2.0 million and RMB5.4 million, respectively.

#### ***Reasons for The Non-compliance***

We believe this non-compliance incident was caused by certain circumstances that (i) a certain number of our employees are rural residents who have already participated in the new local rural social insurance plans and rural cooperative medical schemes, hence they are typically not willing to participate in the foregoing social welfare schemes and housing provident funds; (ii) a certain number of our employees are migrant workers who are typically not willing to participate in the social welfare schemes of the city where they temporarily reside in as such contributions are not transferrable among cities; and (iii) lastly, our staff who were in charge of this matter did not fully understand the relevant laws and regulations.

#### **Legal Consequences**

As advised by our PRC Legal Advisor, the relevant PRC authorities may notify us that we are required to pay the outstanding social insurance contributions within a stipulated deadline and pay an overdue charge equal to 0.05% of the outstanding amount for each day of delay. If we fail to pay the outstanding social insurance contributions within such prescribed period, we may be liable to a fine of one to three times the outstanding contribution.

In the case that we fail to pay the full amount of housing provident fund as required, the housing provident fund management center may order us to make the outstanding payment within a prescribed time limit. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement.

#### **Rectification Actions Taken And Potential Impacts**

As of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities alleging that we had not fully contributed to the social insurance premiums and housing provident funds and demanding payment of the same before a stipulated deadline, nor were we aware of any plan of relevant authorities to collect the outstanding amounts from us. We also had not received any notification from the relevant authorities requiring us to amend our policies or practice regarding our contribution of social insurance premiums and housing provident funds for employees.

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We have obtained the written compliance confirmations from competent local authorities in charge of social insurance premiums and housing provident funds in substantially all of the cities where our major operating entities are located, providing that, during the Track Record Period, no administrative penalties had been imposed on us in connection with the matter of social insurance premiums and housing provident funds.

Also, we have been actively communicating with the relevant local government authorities. We will be making contributions for our employees in a manner as required as soon as practicable once we receive the notification from the relevant government authorities, if any, to require us to make contribution for the outstanding amounts or to amend our policies or practice in this regard, so that we will not receive administrative punishment from the relevant government authorities due to the failure of making the contributions in time. We have reviewed and improved our practice. As of the Latest Practicable Date, except for those newly recruited employees for whom the registration of social insurance premiums and housing provident funds contribution had not been completed and those employees with whom the employment relationship was terminated (as such the contribution of social insurance premiums and housing provident funds in current month for these people was not possible), we are in the process of completing the registration procedures for all our current employees in connection with the contribution of social insurance premiums and housing provident funds and had made contributions for them based on our past experience and practice.

We were also not aware of any employee's complaints or demands for payment of social insurance premium or housing provident fund contributions, nor had we received any legal documentation from the labor arbitration tribunals or the PRC courts regarding disputes in this regard.

We have also received the confirmations from Mr. Chen and Mr. Qin, our Controlling Shareholders, dated April 26, 2021, undertaking that in case that our Company is required by the relevant government authorities to make full repayment of the outstanding amounts and/or pay relevant penalties, they will indemnify the Company for such payments so that the Company will not suffer from economic losses in this regard.

Based on (i) the above-mentioned confirmations and undertakings and (ii) sufficient provisions have been made in our financial statements as mentioned below, our PRC Legal Advisor is of the opinion that, this non-compliance incident will not have any material and adverse impact on our Group.

We have reviewed and implemented enhanced internal control measures to prevent future potential non-compliances. We have prepared and distributed internally a compliance policy with respect to social insurance and housing provident fund contribution in accordance with the PRC laws and regulations. We have assigned designated personnel to monitor the status of payments of social insurance premiums and provident funds on a regular basis in order to ensure that we have made these payments for our employees on time in compliance with the applicable laws and regulations or in a manner as required by the relevant government authorities. The designated team includes our human resources staff, who shall prepare the

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written records of the relevant payments on a monthly basis and submit the same to the heads of our human resources and finance departments for review. We also intend to engage an external law firm to provide compliance trainings to the responsible administrative staff on the updates of the relevant laws and regulations on an on-going basis. Our Directors believe that our enhanced internal control measures are sufficient and effective for our current operations.

As of December 31, 2019, 2020 and 2021, the carrying amount of our provisions for social insurance premiums and housing provident funds amounted to RMB11.7 million, RMB7.2 million and RMB7.5 million, respectively.

Based on the confirmations and facts described above, the advice from our PRC Legal Advisor and the enhanced internal control measures we have implemented, our Directors are of the opinion that this non-compliance incident will not have a material adverse impact on our business operations or financial condition as a whole.

### RISK MANAGEMENT AND INTERNAL CONTROL

We have developed and implemented risk management policies to identify and address the potential risks in relation to our operations, including strategic risks, operational risks, financial risks, and legal risks. Our risk management policies set forth procedures to identify, analyze, categorize, mitigate and monitor various risks. Our Board is responsible for overseeing the overall risk management. We periodically assess and update our risk management policies. Our risk management policies also set forth the reporting hierarchy of risks identified in our operations.

We have also developed and implemented a series of internal control management measures. Our internal control system is designed to provide adequate assurance for effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Our internal control system covers all material aspects of our operations, including but not limited to corporate governance enhancement, payment settlement and reconciliation, procurement and payment procedures, inventory track and reconciliation mechanism, cash and investment management, internal audit and financial reporting system. We carry out regular internal evaluation and training to ensure that our employees are equipped with sufficient knowledge on our internal control measures and relevant laws and regulations.

In January 2021, we engaged an independent consulting firm as our internal control consultant, who had performed a thorough review and provided recommendations on the effectiveness of our internal controls. The scope of the internal control review performed by our internal control consultant was discussed and agreed among us, Joint Sponsors and the internal control consultant.

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We have adopted a set of procedures and measures based on the suggestions of our internal control consultant to further ensure the effectiveness of our internal controls and corporate governance practice. Our internal control consultant had conducted a follow on review and assessment and confirmed that we had properly implemented the enhanced internal control measures.

Other than the internal controls and risk management measures in connection with various aspects of our operations, we will continue to implement the following internal control measures at our Group level:

- To meet the corporate governance standards as a [REDACTED] company on the Stock Exchange, we will establish an audit committee, a remuneration committee and a nomination committee under the Board, and will provide in writing the respective responsibility of each committee; their primary duties include, among others, providing an independent view of our financial reporting process, internal control and risk management system, ensuring the levels of remuneration and compensation are appropriate, and recommends to the Board with suitably qualified persons;
- We will implement information disclosure policies and procedures for information identification and disclosure in connection with sensitive information and related party transactions subject to the requirements under the Listing Rules and relevant accounting standards;
- We plan to provide trainings to our Directors, management and employees to continuously raise their awareness of the importance of internal controls and legal compliance; in particular, we intend to continue to provide trainings for Directors and management with respect to the Listing Rules and duties of Directors of a [REDACTED] company on the Stock Exchange; and
- We plan to engage professional consulting firms and/or law firms to provide trainings and advise on ongoing regulatory compliances with the relevant PRC laws and regulations; we will also constantly update our internal control policies based on our operational needs as well as changes of new laws and regulations.

Our Directors are of the view that our enhanced internal control system is sufficient and effective for our current operations.



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### IMPACTS OF COVID-19 OUTBREAK

In late 2019, an outbreak of respiratory illness caused by a novel coronavirus, or COVID-19, was quickly spreading around the world, including in China. The new strain of coronavirus is considered highly contagious and may pose a serious public health threat. On January 23, 2020, the PRC Government announced the lockdown of Wuhan. Since then, stringent containment measures including travel restrictions had been imposed in other major cities in the PRC in an effort to contain the coronavirus outbreak. On January 30, 2020, the World Health Organization declared the outbreak of COVID-19 a Public Health Emergency of International Concern, or the PHEIC. As of the Latest Practicable Date, the virus had spread to over 200 countries and territories globally, and death toll and number of infected cases continued to rise. The COVID-19 outbreak has resulted in a high number of fatalities, and is likely to continue to have, a prolonged adverse impact on the livelihood of the people and the economy globally.

### Our Response to and Campaign against COVID-19 Outbreak

In line with PRC government guidelines, we have implemented precautionary measures to maintain a hygienic working environment. For example, we had implemented health screening procedures for all entrants of our premises, including checking their travel history and whether they have any symptoms associated with COVID-19 and measuring their temperature. We have assembled a pandemic emergency team that is responsible for closely tracking the health status of our employees. In addition, we rapidly procured and distributed face masks and other personal disinfectant products such as hand sanitizers to our employees for free. Furthermore, our premises were regularly cleaned every day.

Due to the COVID-19 outbreak and the government’s relevant control measures, we temporarily suspended our production and assembly facility for a period of ten days from February 2, 2020 to February 11, 2020. We had fully resumed our production and assembly activities as of February 12, 2020. In order to prevent and control the outbreak, we adjusted our business operations and set up specific plans for resumption of work, our health and safety management system and emergency plans.

Moreover, subject to various travel restrictions imposed by local governments in an effort to curb the spread of the COVID-19 pandemic, logistic services to deliver our products to customers were temporarily compromised in February and March 2020, especially in cities that were severely affected by the pandemic, such as Wuhan. Due to the COVID-19 outbreak, we encountered a temporary shortage and increase in prices of certain key raw materials. Nevertheless, as we had sufficient stock of raw materials during such period, we did not encounter any material interruption to our production and assembly activities. The logistic services and the supply of our raw materials have all been resumed to normal in the third quarter of 2020. Moreover, to help our distributors to fight against the pandemic, we temporarily launched a number of policies in favor of our distributors, including extending the

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period for repair and maintenance services for a period of one to three months, and giving away free gifts to motivate purchasers. Total monetary value of the free gifts was less than RMB28,100, which we believe is insignificant and had no material impact on our financial performance.

On the other hand, despite the short-term lock down measures implemented in certain cities during the COVID-19 outbreak, the overall sales of our offline distributors were not materially adversely affected, which was primarily due to the surging market demands as a result of the home-based online education policy promoted by central and local governments. In addition, our offline distributors also actively deployed various marketing measures on social media and other online platforms and collaborated with local logistic service providers to offer door-to-door delivery service.

We estimated that we incurred anti-pandemic related expenses of approximately RMB365.0 thousand, which were primarily recorded in the first half of 2020 and mainly in connection with the purchases of medical and safety supplies for our employees. We currently expect the anti-pandemic related expenses and the donations to be one-off items. We believe such amount was insignificant and other than this, we did not incur other material anti-pandemic expenses during the Track Record Period.

It was reported that COVID-19 outbreak has been under control in China but it still takes time for the recovery of domestic economic activities. It is difficult to predict at current stage to what extent the COVID-19 would have impacts on our operations. We estimated that our overall business and financial performance for the year ending December 31, 2021 will not be materially adversely affected by the COVID-19.

The abovementioned analysis is for illustrative purpose only and actual impact caused by the COVID-19 outbreak will depend on its subsequent development. Our Directors will continue to assess the impacts of the COVID-19 on the business and financial performance of our Group and will closely monitor the risks and uncertainties arising thereof.