You should read the following discussion and analysis in conjunction with our audited consolidated financial statements, including the notes thereto as of and for the years ended December 31, 2019, 2020 and 2021, included in the Accountants' Report set out in Appendix I to this document. The Accountants' Report has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations)) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

The following discussion and analysis and other parts of this document contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in "Risk Factors".

For the purpose of this section, unless the context otherwise requires, references to 2019, 2020 and 2021 refer to our financial year ended December 31 of such year. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

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 students, their parents and school teachers. Established in 1999, we have become a major technology-powered smart learning device service provider with an integrated education ecosystem in China. 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 design, develop, manufacture and market a broad range of smart learning devices, including personal student tablets, smart classroom solutions, wearable products and other products. 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. We endeavor to leverage the advanced technologies to create a flexible, efficient, effective, interactive and personalized learning experience. Revenue derived from sales of our personal student tablets constituted the majority portion of our total revenue during the Track Record Period.

We have established an extensive, well-managed nationwide offline distribution network with deep penetration. Our distributors not only market and sell our products, but also deliver customer services, especially to places where educational resources are typically inadequate. 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. In addition to the offline distributors, we also generated revenue from other sales channels, including self-operated online platforms, online distributors. During the Track Record Period, we also generated a small portion of revenue from third parties who placed in-app advertisements with us and third parties who offered our licensed digital educational resources on their platforms under profit-sharing arrangements.

Taking advantage of diverse product offerings, with comprehensive digital educational resources expanding distribution network, as well as the loyal user base, we have achieved a remarkable development during the Track Record Period and we consider we are well positioned to continue to capitalize on the growing integrated education service industry in China. Our revenue increased by 9.6% from RMB669.9 million in 2019 to RMB734.0 million in 2020, and further increased by approximately 10.8% to RMB813.2 million in 2021. Our net profit increased by 32.5% from RMB69.4 million in 2019 to RMB92.0 million in 2020. Net profit decreased by approximately 10.7% from RMB92.0 million in 2020 to RMB82.1 million in 2021. Without considering the impact of the [**REDACTED**] 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.

BASIS OF PRESENTATION

Our Company acts as the holding company of our Group and was established in the Cayman Islands on February 8, 2021 as an exempted company with limited liability under the Companies Act of the Cayman Islands. Certain education services are subject to regulatory foreign ownership restrictions. Prior to the incorporation of the Company and the below-mentioned Reorganization, our operations were conducted through Zhuhai Readboy and other PRC operating entities. Pursuant to the Reorganization and the contractual arrangements, the Company became the holding company that, among others, indirectly owns Zhuhai Readboy through the WFOE. The contractual arrangements enable the WFOE to exercise effective control over Zhuhai Readboy and obtain substantially all economic benefits of Zhuhai Readboy. Accordingly, Zhuhai Readboy is controlled by the Company based on the contractual arrangements though the Company does not have any direct or indirect equity interest in Zhuhai Readboy.

The companies now comprising the Group were under the common control of the Controlling Shareholders before and after the Reorganization. As the Reorganization only involved inserting new holding companies and entering into contractual arrangements that has not resulted in a change of respective voting, economic substance and beneficial interests, our historical financial information for the Track Record Period has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Track Record Period.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date of incorporation of the subsidiaries, where this is a shorter period. The consolidated statements of financial position of the Group as of December 31, 2019, 2020 and 2021 have been prepared to present the assets and liabilities of the subsidiaries using the existing book values. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization.

All intra-group transactions and balances have been eliminated on consolidation.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, which primarily include the following:

Affecting Our Results of Operations

We have benefited significantly from favorable demographic trends, the overall economic growth and the demand for high-quality educational services in China. In particular, we expect that the demand for high quality smart learning devices in China will continue to be driven by (i) market demands resulting from student population and increasing disposable income per capita along with increasing level of urbanization, (ii) increasing spending on education in the pursuit of high quality education, and (iii) advancement and wide application of IT and other innovative technologies.

We have also benefited from a number of policies, rules and regulations to promote educational reform promulgated by China's central and local governments. For example, in 2010, National Medium-to-Long Term Educational Reform and Development Plan (2010-2020) was released which set strategic development plans and key objectives for each different sectors of education industry, covering pre-school education, compulsory education, senior secondary education, vocational education, higher education and adult education and so on. In 2017, the 13th Five-Year-Plan in Education Industry has been issued, which focused on industry reform and outlined the development targets and the guidance of development. Furthermore, recent new education policies released by the central government revealed the government's support to promote public education. In particular, in July 2021, 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 reaffirm the government's political strategies to promote the quality of compulsory in-school education and increase the diversity of educational services provided by schools. 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. Under the recent new 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 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.

At the same time, our results are subject to changes in the restrictive regulatory regime governing China's education industry. The PRC government regulates various aspects of our business and operations, including the qualification, licensing or filing requirements for entities that provide smart learning device services and limitations on foreign investments in the certain education industry. Any adverse changes in the general economic conditions or restricted educational regulatory environment may have a material adverse effect on our ability to maintain current operation model and further execute our development strategies, which in turn may harm our business and results of operations.

Specific Factors Affecting Our Results of Operations

Distribution Network

We primarily rely on our offline distribution network to distribute our products, and deliver customer services, which allows us to acquire end users efficiently and to strengthen their loyalty. We have an established and extensive offline distribution network with deep penetration, supplemented by other sales channels such as self-operated online platforms and online distributors. As of the Latest Practicable Date, we had contracted 132 offline distributors who controlled 4,523 points of sales across the country. Moreover, our distribution network deeply penetrates in China covering a large majority of county-level cities. During the Track Record Period, our sales to offline distributors contributed 91.7%, 85.0% and 85.5% of our total revenue in 2019, 2020 and 2021, respectively. Therefore, our ability to retain existing and acquire additional offline distributors who possess strong local resources and good reputation is critical to our future development.

To capitalize on the significant growth of e-commerce in China, we recently commenced to engage online distributors and more importantly, in 2018, we began operating self-operated online storefronts on major e-commerce platforms, such as Tmall and Pinduoduo, and the in-app store on WeChat. We expect our penetration through the online channels to contribute to our sales growth and to have synergies with our offline distribution network by enhancing our brand recognition. We plan to continue to expand our sales and distribution network to support the growth of our business and strengthen our market positions.

Product Mix, Quality of Smart Learning Devices and Associated Digital Educational Resources and Customer Preferences

Currently, our revenue are primarily derived from sales of our smart learning devices, which represent the value of the devices together with the associated digital educational resources and services. Our revenue and profitability are generally affected by the product mix. Different products with various digital educational resources, whether within the same product category, typically vary in product pricing and marketing strategies, raw materials, packaging formats and production costs, and thus have different gross profit margins. In this regard, our ability to price our products at desired levels has been, and will continue to be, important to our business and results of operations. We generally take into account a number of factors to set the price of our products, including production costs, including the costs relating to the development of the digital educational resources, market demand, and level of competition and so on. Driven by a number of factors, such as the increasing popularity of our brand and products, the product mix improvement, the climbing raw material costs and other costs and expenses in association with the production and operation, the average selling prices of our personal student tablets increases over the past years. Generally speaking, (i) upgraded models generally carry higher prices, (ii) a newly released model is priced higher than the old models with similar configurations and specifications released in previous years, and (iii) on a case-by-case basis, we may consider to adjust the selling price of certain product model if the relevant raw material costs increase significantly. Although the smart learning devices industry is fragmented with increased competition among existing market players in China, we believe we have established barriers to entry. Our brand recognition and high quality and variety of our products and services have provided us with strong pricing power.

Moreover, our results of operations have been and will continue to be affected by the changes in user preferences, which materially influence the users' spending decision and pattern. Our revenue will be adversely affected if our current product offerings, including the associated digital educational resources, become less attractive to our potential users. In addition, we have consistently invested in developing new products and offering more digital educational resources. If we fail to successfully diversify and expand our product and digital educational resource offerings to adapt to the constantly changing learning needs and preferences, we may suffer from significant research and development expenses and decreases in results of operation, in turn, our market share and prospects.

We believe that our diversified product and service portfolios enable us to target customers with different purchasing power and learning needs, and enable us to capitalize on changes in market conditions and consumer demands in a timely manner. We have made, and will continue to make, effort to adjust our product mix in response to consumers' changing preference on one hand, and to improve our overall profitability on the other.

Raw Material Costs

Our results of operations have been and will continue to be affected by raw material costs. During the Track Record Period, our raw material costs amounted to RMB429.4 million, RMB459.4 million and RMB564.8 million, respectively, in 2019, 2020 and 2021, accounting for approximately 86.7%, 86.3% and 87.7%, respectively, of total cost of sales over the same periods. The principal raw materials for our products include integrated circuits and display screens, as well as various packaging materials.

The prices of raw materials are determined principally by market forces and changes in governmental policies, as well as our bargaining power with our suppliers, which are typically set forth in purchase orders we place under the supply agreements. As is customary in our industry, we typically are not able to immediately pass price fluctuations to our customers as they occur. We do not purchase any hedging contracts in relation to commodity prices and mainly leverage our procurement control system to maintain our profitability. Despite our increasing need for raw materials to support our expanding business operations and the upward trend in their prices throughout the Track Record Period, our raw material costs as a percentage of total cost of sales remained relatively stable. The availability of our key raw materials may cause a temporary fluctuation in their purchase prices due to the unstable supply and demand conditions. For example, we experienced an increase in raw material costs from 2020 onwards, in part resulting from the temporary global shortage of certain key raw materials.

We have implemented a number of cost control measures with respect to our raw material procurement in order to mitigate the impact of rising raw material prices. We constantly monitor the market price and trends of raw materials. We typically retain multiple suppliers for each of our major raw materials to ensure best price, quantity and quality. We typically enter into supply agreements with a term of two years subject to annual review and renewal. We expect the prices of our key raw materials to continue to rise at a moderate rate in the near future. We plan to continue our procurement cost control effort so as to maintain our profitability.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that we believe are most significant to the preparation of our consolidated financial statements. Some of our critical accounting policies involve subjective assumption and estimates, as well as complex judgments by our management relating to accounting items. Our significant accounting policies are set forth in details in Note 2.4 to the Accountants' Report included in Appendix I to this document.

The estimates and associated assumptions are based on our historical experience and various other relevant factors that we believe are reasonable under the circumstances, the results of which form the basis of making judgments about matters that are not readily apparent from other sources. When reviewing our financial results, you should consider: (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. The determination of these items requires management judgments based on information and financial data that may change in the future periods, and as a result, actual results could differ from those estimates.

REVENUE RECOGNITION

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which we will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of goods provide customers with deductions, which give rise to variable consideration.

Rebates may be provided to certain customers to support their sales activities. Rebates are offset against amounts payable by the customers. To estimate the variable consideration for the expected rebates, we apply the most likely amount method which best predicts the amount of variable consideration which usually is a fixed percentage of cash collection amount as agreed in the contract. We then apply the requirements on constraining estimates of variable consideration and the expected future rebates are deducted from receivables from customers.

(a) Sale of personal student tablets

We provide the sale of devices that are bundled together with the provision of digital educational resources and services to the customer. Contracts for bundled sales of devices and digital educational resources and services are comprised of two performance obligations because the promises to transfer the devices and provide digital educational resources and services are capable of being distinct and separately identifiable. Accordingly, the transaction price is allocated to each performance obligation based on the relative stand-alone selling prices of the devices and digital educational resources and services.

Revenue from the sale of devices is recognized at the point in time when control of the personal student tablets is transferred to the customers. Significant part of our products is sold to distributors who have primary responsibilities for products to be sold in their designated geographical areas. The control of the products is transferred when goods are accepted by the distributors. We also sell our product to end users over third-party online retail platforms. The control of products is transferred when online payment transaction is completed and goods are accepted by the end users.

Revenue from the provision of digital educational resources and services is recognized over the estimated user life on a straight-line basis, starting from the point when such resources is activated online by the end users, i.e. the users are able to use and benefit from the digital educational resources and services, and other revenue recognition criteria are met. We estimate the user life and re-assesses such period at the end of each reporting period. For those personal student tablets, revenue from the provision of digital educational resources is recognized at a point in time when the right to use of the digital educational resources is transferred, i.e., when the digital educational resources are activated by the user.

(b) Sale of smart classroom solutions

We provide the sale of smart classroom solutions that include devices together with the provision of customized digital educational resources based on local curriculum standards as well as tutoring content and services to enable an interactive learning environment for teachers and students. Contracts for bundled sales of devices and digital educational resources and services are comprised of two performance obligations because the promises to transfer the devices and provide digital educational resources and services are capable of being distinct and separately identifiable. Accordingly, the transaction price is allocated to each performance obligation based on the relative stand-alone selling prices of the devices and digital educational resources and services.

Revenue from the sale of devices is recognized at the point in time when control of the device is transferred to the customers. Significant part of our products is sold to distributors who have primary responsibilities for products to be sold in their designated geographical areas. The control of the products is transferred when goods are accepted by the distributors. We also sell our product to end users over third-party online retail platforms. The control of products is transferred when online payment transaction is completed and goods are accepted by the end users.

Revenue from the provision of digital educational resources and services is recognized over the estimated user life on a straight-line basis, starting from the point when the digital educational resources are activated by the end users, i.e. the users are able to use and benefit from the digital educational resources, and other revenue recognition criteria are met. We estimate the user life and re-assesses such period at the end of each reporting period.

(c) Sale of wearable products and other products

Revenue from the sale of wearable products and other products is recognized at the point in time when control of the products is transferred to the customer, that is when the products are accepted by the customers.

(d) Sale of advertisement and content licensing

We place links to the APPs of the customers on the devices sold by us. We collect a fee based on the fixed price per click or download as agreed in the contract with the customers and number of clicks performed by the end users. Monthly statements are issued and agreed by both parties to confirm the volume of actual clicks or downloads and revenue amount. We estimate revenue based on available information which has no material differences with the confirmed amount on the monthly statement.

We license pre-recorded video resources to third-party channels which place the digital educational resources on their platforms to sell to the end users. When the users purchase the digital educational resources from the platforms, we are entitled to a prescribed fixed percentage of gross proceeds collected by the channels. We view the channels as our customers as the channels control the digital educational resources and have the primary responsibility to sell the digital educational resources to the users. We recognize the net amount remitted from the channels as revenue based on the monthly statement issued and confirmed by the platforms.

(e) Identifying performance obligations in a bundled sale of devices and digital educational resources and services

A good or service that is promised to a customer is distinct if both of the following criteria are met: (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and (b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. We determine that both devices and digital education resources and services are each capable of being distinct.

In assessing whether each item has stand-alone value to the customer, we consider factors such as the availability of readily available resources in the market and whether the entity sells goods or services separately, which indicates that the customer can benefit from both devices and digital educational resources and services on their own.

We determine that the promises to provide digital educational resources are not distinct from the maintenance and renewal services as the customer cannot exploit the value of the digital educational resources without receipt of such maintenance and renewal services. Therefore, the provision of digital educational resources and the maintenance and renewal services are combined as one performance obligation. We conclude that the promises to transfer devices and to provide digital educational resources and services are distinct. The device is separately identifiable in the contract and will be transferred upon the acceptance by customers. The digital educational resources represent digital educational content offerings which are not an integrated part of the device. We are not providing a significant integration service because the presence of the devices and digital educational resources and services together in the contract does not result in any additional or combined functionality and neither the device nor the digital educational resources modifies or customizes the other. In addition, the devices and the digital educational resources and services are not highly interdependent or highly interrelated, because the delivery of device is not dependent on the digital educational resources and services to be provided in the future. Therefore, the devices and provision of digital educational resources and services are two separate performance obligations.

Consequently, we have allocated the transaction price to devices and digital educational resources and services based on relative stand-alone selling prices. The stand-alone selling prices are not directly observable. Therefore, we estimate it using expected cost-plus-margin approach by considering the separate forecasted costs of devices and digital educational resources and the anticipated margins at the amount we expect the market would be willing to accept. With respect to our devices, the cost primarily consists of raw material costs, staff costs allocated to manufacturing, manufacturing related costs, logistic and tax related costs. With respect to the digital educational resources, the cost primarily consists of content licensing fees, server and bandwidth costs and others. We have considered all information that is reasonably available in determining the anticipated margins, including but not limited to, third-party or industry pricing, costs incurred to provide the good or service, related profit margins. During the Track Record Period, gross profit margin of the digital educational resources and services under the both personal student tablets and smart classroom solutions ranged from approximately 62% to 67%, which is generally consistent with the industry average level during the same periods.

(f) Determining the timing of satisfaction of digital educational resources and services

Revenue from provision of digital educational resources and services is recognized over time because the user is granted a right to access digital educational resources embedded in the devices and is provided with continuing maintenance and renewal services over the user life. We use the average user life when estimating the period over which revenue is being recognized.

For sale of personal student tablets, we track each user's log in history to estimate the average user life. For sale of smart classroom solutions, we consider the types of schools and grade of end users to whom the smart classroom solutions are sold to estimate the average user life.

The determination of the average user life for each type of products is based on our best estimate that takes into account all known and relevant information at the time of assessment. Future user classifications, patterns and behaviors may differ from the historical usage patterns and therefore the estimated average user life may change in the future. During the Track Record Period, the average user life of digital educational resources and services is estimated as twenty-four months. We will continue to monitor the estimated average user life, which may differ from the historical period, and any change in the estimate may result in the revenue being recognized on a different basis to that in prior periods. Any adjustments arising from changes in user life as a result of new information will be accounted for as a change in accounting estimate.

Contract liabilities

A contract liability is recognized when a payment is received or a payment is due (whichever is earlier) from a customer before we transfer the related goods or services. Contract liabilities are recognized as revenue when we perform under the contract (i.e., transfers control of the related goods or services to the customer).

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss and other comprehensive income.

We provide for warranties in relation to the sale of smart learning devices for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by us are recognized based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Leases

We assess at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

We apply a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. We recognize lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises . . . . 2 to 8 years

If ownership of the leased asset transfers to us by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by us and payments of penalties for termination of a lease, if the lease term reflects us exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, we use our incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

We apply the short-term lease recognition exemption to its short-term leases of buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases are recognized as an expense on a straight-line basis over the lease term.

Group as a lessor

When we act as a lessor, we classify at lease inception (or when there is a lease modification) each of our leases as either an operating lease or a finance lease.

Leases in which we do not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, we allocate the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

At the commencement date, the cost of the leased asset is capitalized at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance income on the net investment in the lease is recognized in the statement of profit or loss so as to provide a constant periodic rate of return over the lease terms.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth the consolidated statements of profit or loss and other comprehensive income of our Group with line items in absolute amounts and as percentages of total revenue for the periods indicated.

	Year Ended December 31,					
	2019		2020		2021	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(In thousands, except for percentages)					
Revenue	669,853	100.0	733,997	100.0	813,181	100.0
Cost of sales	(495,470)	(74.0)	(532,285)	(72.5)	(644,009)	(79.2)
Gross profit	174,383	26.0	201,712	27.5	169,172	20.8
Other income and gains	30,623	4.6	42,741	5.8	60,098	7.4
Selling and distribution expenses	(63,490)	(9.5)	(74,163)	(10.1)	(73,060)	(9.0)
Administrative expenses	(20,203)	(3.0)	(21,865)	(3.0)	(44,008)	(5.4)
Research and development expenses	(36,428)	(5.4)	(30,211)	(4.1)	(43,870)	(5.4)
Other expenses	(7,752)	(1.2)	(15,067)	(2.1)	(22,867)	(2.8)
Finance costs	(1,227)	(0.2)	(359)	(0.0)	(88)	(0.0)
Changes in fair value of financial liabilities at fair value through profit or loss	–	–	–	–	26,649	3.3
Profit before tax	75,906	11.3	102,788	14.0	72,026	8.9
Income tax credit/(expense)	(6,471)	(0.9)	(10,775)	(1.5)	10,120	1.2
Profit and total comprehensive income for the year	69,435	10.4	92,013	12.5	82,146	10.1
Attributable to owners of the parent	69,435	10.4	92,013	12.5	82,146	10.1

Non-HKFRS Measures – Adjusted Net Profit and Adjusted Net Profit Margin

To supplement our combined financial statements, which are presented in accordance with HKFRS, we also present adjusted net profit and adjusted net profit margin as additional financial measures, which are not required by, or presented in accordance with, HKFRS. Adjusted net profit, as we present it, represents profit for the year before [**REDACTED**] and changes in fair value of financial liabilities at fair value through profit or loss. Adjusted net profit margin is calculated by adjusted net profit for the year divided by total revenue for the year. [**REDACTED**] are expenses in relation to the [**REDACTED**]. Changes in fair value of financial liabilities at fair value through profit or loss are expenses in connection with the shares we issued to our [**REDACTED**] Investors, the amount of which may not directly correlate with the underlying performance of our business operations. We believe that the presentation of non-HKFRS measures, when shown in conjunction with the corresponding HKFRS measures, provides useful information to investors and management regarding financial and business trends in relation to our financial condition and results of operations that could otherwise be distorted by the effect of the expenses that we include in income from operations and net profit. We believe that these non-HKFRS measures provide useful information about our operating results, enhance the overall understanding of our past performance and future prospects, and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making and comparing the financial results across accounting periods and to those of our peer companies.

While these non-HKFRS measures provide additional financial measures for investors to assess our operating performance, the use of these non-HKFRS measures has certain limitations because they do not reflect all items of income and expense that affect our operations. Our presentation of these non-HKFRS measures should not be construed as an inference that our future results will be unaffected by such unusual item.

These non-HKFRS measures should not be considered in isolation or construed as a substitute for analysis of HKFRSs financial measures. In addition, because they may not be calculated in the same manner by all companies, our adjusted net profit (a non-HKFRS measure) and adjusted net profit margin (a non-HKFRS measure) may not be comparable to the same or similarly titled measures presented by other companies.

As a measure of our operating performance, we believe that the most directly comparable HKFRSs measures to adjusted net profit (a non-HKFRS measure) and adjusted net profit margin (a non-HKFRS measure) are profit and net profit margin, respectively, for the year. The following table reconciles profit and net profit margin for the year under HKFRSs to adjusted net profit (a non-HKFRS measure) and adjusted net profit margin (a non-HKFRS measure), respectively, for the year indicated:

	Year Ended December 31,		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year	69,435	92,013	82,146
Add:			
[REDACTED]	–	–	**[REDACTED]**
Less:			
Changes in fair value of financial liabilities at fair value through profit or loss	–	–	26,649
Adjusted net profit for the year (a non-HKFRS measure)	69,435	92,013	**[REDACTED]**
Net profit margin	10.4	12.5	10.1
Adjusted net profit margin (a non-HKFRS measure)	10.4	12.5	**[REDACTED]**

During the Track Record Period, our net profit increased by 32.5% from RMB69.4 million in 2019 to RMB92.0 million in 2020, and decreased by 10.7% to RMB82.1 million in 2021. Such fluctuations of net profit during the Track Record Period were primarily due to the changes in gross profit mainly resulting from the changes in raw material costs and marketing expenses in the corresponding periods.

DESCRIPTION OF CERTAIN MAJOR COMPONENTS OF OUR CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Revenue

Revenue by Product Categories

Our revenue during the Track Record Period consists of revenue derived from sales of (i) personal student tablets, (ii) smart classroom solutions, (iii) wearable products, (iv) other products, and (v) advertisement and content licensing. The table below sets forth a breakdown of our revenue by product category, each expressed in the absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,					
	2019		2020		2021	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(In thousands, except for percentages)					
Personal student tablets						
Devices[1]	448,321	66.9	550,702	75.0	571,626	70.3
Digital educational resources and services[1]	93,173	13.9	114,226	15.6	133,397	16.4
Sub-total	541,494	80.8	664,928	90.6	705,023	86.7
Smart classroom solutions						
Devices[1]	7,249	1.1	20,419	2.8	19,300	2.4
Digital educational resources and services[1]	914	0.1	1,874	0.3	4,279	0.5
Sub-total	8,163	1.2	22,293	3.1	23,579	2.9
Wearable products	111,778	16.7	31,664	4.3	53,695	6.6
Other products	5,987	0.9	2,144	0.2	17,918	2.2
Advertisement and content licensing	2,431	0.4	12,968	1.8	12,966	1.6
Total	669,853	100.0	733,997	100.0	813,181	100.0

Note:

(1) During the Track Record Period, we did not separately charge fees based on digital educational resources we have offered. Instead, we consider the value of our personal student tablets and the smart classroom solutions represent the aggregate value of the hardware devices, and the associated digital educational resources and services. As such, revenue derived from devices is recognized at the point in time when control of the devices is transferred to the customers. Revenue derived from of the digital educational resources and services is recognized over the estimated user life on a straight-line basis.

Our revenue increased by approximately 9.6% from RMB669.9 million in 2019 to RMB734.0 million in 2020, and further increased by approximately 10.8% from to RMB813.2 million in 2021.

Personal student tablets constituted our major product category during the Track Record Period and accounted for the approximately 80.8%, 90.6% and 86.7% of our total revenue, respectively, in 2019, 2020 and 2021. The increase from 2019 to 2020 was primarily due to the increase in total sales volumes, which was a consolidated result of the development of our distribution network as well as our increased brand recognition and market acceptance of our personal student tablets, which in turn, due to the improvement of our product mix where the proportion of high-end product models with higher selling prices increased as we continued to upgrade the devices in response to the evolving market trend. The increase in revenue from 2020 to 2021 was primarily due to the improvement in product mix where the proportion of high-end products that with higher retail selling prices, such as our C30 personal student tablet which generally has a retail selling price of approximately RMB5,000, increased in 2021. During the same periods, the aggregate shipments of our personal student tablets were 456.9 thousand units, 484.6 thousand units and 458.8 thousand units, respectively, in 2019, 2020 and 2021. 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.

Revenue from sales of smart classroom solutions increased from 2019 to 2020, primarily as a result of the market acceptance of our smart classroom solutions, and also the result of the increase in sales volumes, reflecting the preferential educational regulations and policies promulgated to by the local and central governments to promote digital education industry. The increase was also attributable to the expansion of our distribution network. The increase in revenue from 2020 to 2021 was primarily due to the improvement in product mix. 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. We had supplied our smart classroom solutions to 65, 50 and 113 schools 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 consider the value of our personal student tablets and the smart classroom solutions represent the aggregate value of the hardware devices, and the associated digital educational resources and services. As such, revenue derived from devices is recognized at the point in time when control of the devices is transferred to the customers. Revenue derived from of the digital educational resources and services is recognized over the estimated user life on a straight-line basis. See "– Critical Accounting Policies and Estimates – Revenue recognition" above and "– Analysis of Selected Consolidated Statements of Financial Position Balance Sheet Items – Other Payables and Accruals and Contract Liabilities" for a breakdown of our revenue-related contract liabilities during the Track Record Period.

Revenue from wearable products decreased by 71.7% from 2019 to 2020, which was mainly because we optimized the distribution and product development strategies in light of our wearable products in response to the change in the purchasing policies of certain key customers of such products and the general market trends during the relevant period. Revenue from wearable products increased by 69.6% from 2020 to 2021, primarily due to the increasing sales volume arising from the clearance sales of our old product models and the acceptance of our upgraded smartwatch models, especially those new models introduced to the market. To a lesser extent, the increase was also a result of the increased marketing and sales efforts of our distributors.

We from time to time develop accessories that are compatible to our smart learning devices, aiming to make learning more productive and efficient. During the Track Record Period, we developed and marketed other products, such as smart reader pens and smart scanner pens, revenue from which accounted for approximately 0.9%, 0.2% and 2.2% of our total revenue, respectively, in 2019, 2020 and 2021.

During the Track Record Period, we also generated a small portion of revenue from third parties who placed in-app advertisements with us and third parties who offered our licensed digital educational resources on their platforms under profit-sharing arrangements. Revenue derived from such businesses increased from 2019 to 2020, primarily due to our expanded user base and the increasing acceptance of our smart learning devices, and associated digital educational resources which attracted additional third parties to place advertisements with us or to offer our licensed digital educational resources on their platforms. Revenue derived from advertisement and content licensing remained stable from 2020 to 2021.

Revenue by Sales Channels

We primarily rely on our offline distribution network to distribute our products. We also sell products through our self-operated online platforms, online distributors, and other direct sales channels. The following table sets forth a breakdown of our revenue by sales channel, each expressed in the absolute amount and as a percentage of our total revenue for the periods indicated.

	Year Ended December 31,					
	2019		**2020**		**2021**	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(In thousands, except for percentages)					
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	2,472	0.4	12,968	1.8	12,966	1.6
Total	669,853	100.0	733,997	100.0	813,181	100.0

During the Track Record Period, revenue generated from sales from our offline distributors increased by 1.6% from 2019 to 2020, and further increased by approximately by 11.5% from 2020 to 2021. Such increases were mainly due to the continuous expansion and upgrade of our offline distribution network and the continuous improvements in our product mix, where the proportion of high-end product models with higher selling prices increased. The number of our offline distributors was 58, 86 and 123, respectively, as of December 31, 2019, 2020 and 2021, and the aggregate number of points of sales controlled by these distributors was 2,905, 3,386 and 4,302, respectively, as of December 31, 2019, 2020 and 2021. The increase of our offline distributors outpaced the growth rate of our total revenue during the Track Record Period, which was primarily due to the offset by the decline in purchases of wearable products from certain offline distributors as well as the increasingly large amount of newly opened points of sales in the relevant periods which needed time to become mature.

During the Track Record Period, we strengthened the efforts in developing our online operations. The products we sold online also continued to improve, both in terms of the variety and the product mix. As such, revenue generated from our self-operated online platforms increased by 84.9% from 2019 to 2020, and further increased by approximately 38.5% from 2020 to 2021. Revenue generated from online distributors increased by 82.5% from 2019 to 2020. Revenue generated from online distributors slightly decreased from 2020 to 2021, primarily because we strategically focused on and relocated resources to our self-operated online channels in 2021. We engaged 8, 9 and 16 online distributors as of December 31, 2019, 2020 and 2021, respectively.

During the Track Record Period, revenue derived from others primarily represented the portion of revenue from third parties who placed in-app advertisements with us and third parties who offered our licensed digital educational resources on their platforms under profit-sharing arrangements.

Cost of Sales

The principal components of our cost of sales include raw material costs, staff costs, manufacturing related costs, content licensing fees, server and bandwidth costs and others. Cost of sales increased by 7.4% from 2019 to 2020, primarily due to an increase in the raw material costs, which was in line with the increase in our sales, and was also in part due to the increasing prices of certain key raw materials, such as integrated circuits and display screens, which experienced a temporary shortage in supply in 2020. Cost of sales increased by 21.0% from 2020 to 2021, primarily due to a 23.0% increase in raw material costs which was due to the increase in our sales over the same periods and a general increase in raw material purchase prices. The increase was also partially due to an increase in staff cost because the average salary rates were relatively lower in early 2020 due to the attendance restrictions during COVID-19 pandemic which gradually recovered in 2021.

The following table sets forth a breakdown of our cost of sales by nature, expressed as an absolute amount and as a percentage of our total cost of sales, for the periods indicated.

	Year Ended December 31,					
	2019		2020		2021	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(In thousands, except for percentages)					
Raw material costs	429,417	86.7	459,397	86.3	564,842	87.7
Staff costs	27,870	5.6	26,624	5.0	30,606	4.8
Manufacturing related costs	14,274	2.9	15,786	3.0	15,419	2.4
Content licensing fees	13,494	2.7	14,101	2.6	17,351	2.7
Server and bandwidth costs	2,831	0.6	6,319	1.2	5,265	0.8
Tax	4,061	0.8	4,650	0.9	4,906	0.8
Logistic related costs	2,932	0.6	3,682	0.7	4,136	0.6
Others	591	0.1	1,726	0.3	1,484	0.2
Total	495,470	100.0	532,285	100.0	644,009	100.0

- *Raw material costs*. The major raw materials we used in our production and assembly process mainly include integrated circuits and display screens, as well as various packaging materials. The fluctuation in the raw material costs we incurred during the Track Record Period was mainly correlated with the production activities and the product mix in the relevant period. The availability of our key raw materials was also a main factor affecting our raw material costs.

- *Staff costs*. Staff costs we incurred during the Track Record Period mainly included the compensation and bonus to our manufacturing staff and educational resource research and development crew, including the compensation to our educational resource development personnel. Staff costs we incurred during the Track Record Period were mainly related to the number of our manufacturing staff and educational resource research and development crew and the average salary level of these personnel. Our staff costs decreased from 2019 to 2020, primarily due to the decrease in the number of our manufacturing staff in response to (i) the decreasing purchase orders for our wearable products, (ii) the enhanced automation level since we commenced to upgrade our production and assembly lines since late 2018. It increased by 15.0% from 2020 to 2021, primarily because the average salary rates were relatively lower in early 2020 due to the attendance restrictions during COVID-19 pandemic which gradually recovered in 2021.

- *Manufacturing related costs*. Manufacturing related costs represent the costs in association with our manufacturing activities, including the depreciation of manufacturing equipment and facilities, consumables, utilities and so on. Manufacturing related costs increased from 2019 to 2020, primarily resulting from the increasing depreciation as we commenced to upgrade our production and assembly lines. Manufacturing related costs remained relatively stable in 2020 and 2021.

- *Content licensing fees*. Content licensing fees include the costs we incurred to purchase educational content from various third-party publishers. Content licensing fees also include the payments made to third parties that we cooperated with to jointly develop educational content.

- *Logistic related costs*. Pursuant to the agreements with our distributors, we are generally responsible for the logistic costs in connection with the product delivery from our warehouses to our distributors. The continuous increases from 2019 to 2021 were in line with our sales and the geographic coverage of our offline distribution network over the relevant periods.

- *Server and bandwidth costs*. We purchased a variety of cloud computing services, bandwidth and servers and other related services to support our back-end digitalized operations and to host our digital educational resources. Server and bandwidth costs experienced an significant increase from 2019 to 2020, which was primarily due to the growth of our operations, mainly, the growing online traffic due to our increasing offering of the digital educational resources. Server and bandwidth costs decreased from 2020 to 2021, mainly because we discontinued our live-streaming classes in the second half of 2021.

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less our cost of sales, and our gross profit margin represents our gross profit divided by our revenue, expressed as a percentage. In 2019, 2020 and 2021, our gross profit was RMB174.4 million, RMB201.7 million and RMB169.2 million, respectively. Our overall gross profit margin was 26.0%, 27.5% and 20.8%, respectively, in the same periods.

Our overall gross profit increased from 2019 to 2020, primarily due to the increase in sales of our personal student tablets and smart classroom solutions. Our gross profit margin also continued to increase from 2019 to 2020 was primarily due to the improvements in our product mix where the proportion of sales of products with relatively higher profit margin increased. Gross profit and gross profit margin decreased from 2020 to 2021, primarily due to an increase in raw material costs.

Gross Profit and Gross Profit Margin by Product Categories

The following table sets forth a breakdown of our gross profit and gross profit margin by product categories for the periods indicated.

	Year Ended December 31,					
	2019		2020		2021	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Personal student tablets						
Devices	94,433	21.1	108,642	19.7	51,353	9.0
Digital educational resources and services	58,193	62.5	74,326	65.1	89,320	67.0
Sub-total	152,626	28.2	182,968	27.5	140,673	20.0
Smart classroom solutions						
Devices	1,844	25.4	2,883	14.1	1,809	9.4
Digital educational resources and services	571	62.5	1,219	65.0	2,853	66.7
Sub-total	2,415	29.6	4,102	18.4	4,662	19.8
Wearable products	15,877	14.2	3,446	10.9	7,884	14.7
Other products	1,393	23.3	3	0.1	5,432	30.3
Advertisement and content licensing	2,072	85.2	11,193	86.3	10,521	81.1
Total	174,383	26.0	201,712	27.5	169,172	20.8

Gross profit of our personal student tablets increased by 19.9% from 2019 to 2020, which was primarily due to the increase in total sales. Gross profit margin of personal student tablets slightly decreased in 2020, which was mainly a result of the increase in raw material costs in 2020, in part resulting from the temporary global shortage of certain key raw materials. The supply of certain raw materials remained unstable in 2021, which caused an in increase in raw material costs and our gross profit and gross profit margin of personal student tablets decrease in 2021 as a result.

Gross profit of our smart classroom solutions increased by approximately 69.9% from 2019 to 2020. Such increase was due to the increased sales resulting from our efforts in promoting and marketing our smart classroom solutions. Gross profit margin of smart classroom solutions decreased from 29.6% in 2019 to 18.4% in 2020, mainly due to our enhanced promotional activities, such as preferential pricing policies in favor of the distributors, so as to expand the market coverage. Gross profit of our smart classroom solutions increased by approximately 13.7% from 2020 to 2021, and gross profit margin of smart classroom solutions slightly increased from 18.4% in 2020 to 19.8% in 2021, primarily due to the increase in the proportion of upgraded product models which generally carried a higher selling price and a higher gross profit margin, partially offset the adverse impact of the increase in raw material costs. To further increase our market share, in 2021, we strengthened the marketing incentives for distributors, including but not limited to offer free trial products to schools in order to secure potential business opportunities. We believe such marketing approach is effective and the gross profit margin of our smart classroom solutions will improve in the future as the sales increase.

Gross profit of our wearable products decreased by RMB12.4 million from 2019 to 2020, primarily due to the decrease in the purchase amounts of certain key customers of such products. Gross profit margin of wearable products also decreased from 2019 to 2020, primarily due to our enhanced promotional activities, such as preferential pricing policies in favor of the distributors, to better manage our inventory level. Gross profit of our wearable products increased significantly by 128.8% from 2020 to 2021, primarily due to the increasing sales volume arising from the clearance sales of our old product models and our continuous efforts in launching new product models which were welcomed by the market as well as our enhanced promotional activities for such products. Gross profit margin of wearable products increased from 10.9% in 2020 to 14.7% in 2021, primarily due to the increase in the portion of upgraded product models which generally carried a higher gross profit margin.

The fluctuations in gross profit and gross profit margin of other products were primarily in relation to the different product portfolio in the relevant periods.

Gross profit in connection with advertisement and content licensing experienced a significant increase from 2019 to 2020, primarily due to our expanded user base and the increasing acceptance of our smart learning devices and associated digital educational resources, which attracted additional third parties to place advertisements with us or to offer our licensed digital educational resources on their platforms. Gross profit margin of such business slightly increased over the same period mainly due to the economies of scale. Gross profit and gross profit margin of advertisement and content licensing slightly decreased from 2020 to 2021, primarily due to an increase in relevant costs incurred for such business, such as relevant labor costs and bandwidth expenses.

Gross Profit and Gross Profit Margin by Sales Channels

The following table sets forth a breakdown of our gross profit and gross profit margin by sales channels for the periods indicated.

	Year Ended December 31,					
	2019		**2020**		**2021**	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Offline distributors	158,744	25.8	161,313	25.9	126,393	18.2
Self-operated online platforms	6,561	56.1	12,300	56.9	16,545	55.3
Online distributors	6,965	16.9	16,906	22.4	15,713	21.1
Others	2,113	85.5	11,193	86.3	10,521	81.1
Total	174,383	26.0	201,712	27.5	169,172	20.8

Gross profit of offline distributors increased by approximately 1.6% from 2019 to 2020, primarily due to the continuous increase in sales resulting from the expansion and upgrade of our offline distribution network. Gross profit margin of offline distributors remained relatively stable in 2019 and 2020. Gross profit of offline distributors decreased by approximately 21.6% from 2020 to 2021. Gross profit margin of offline distributors also decreased in the relevant periods. Such decreases were primarily due to a general increase in raw materials costs.

Gross profit of self-operated online platforms experienced a remarkable increase during the Track Record Period, primarily due to the increase in sales as we strengthened the efforts in developing our online operations. The slight increase in gross profit margin of self-operated online platforms from 2019 to 2020 was partially due to the improvements in product mix where the proportion of high-end products with high gross profit margin increased. Gross profit margin of self-operated online platforms slightly decreased in the year ended December 31, 2021 comparing with the corresponding period in 2020, primarily due to a general increase in raw materials costs.

Gross profit of online distributors increased significantly from 2019 to 2020, primarily due to the increase in sales as we strengthened the efforts in developing our online operations. Gross profit of online distributors slightly decreased from 2020 to 2021, primarily because we strategically focused on developing our self-operated online channels. Gross profit margin of online distributors increased from 2019 to 2020, primarily due to an improvement in product mix as online distributors commenced to sell then newly launched product models since 2019. Gross profit margin of online distributor slightly decreased from 2020 to 2021 as a result of a general increase in raw material costs, which was partially offset by the impact from product mix improvement.

Other Income and Gains

The following table sets forth the components of other income and gains in absolute amounts and as percentages of revenue for the periods indicated.

	Year Ended December 31,					
	2019		2020		2021	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(In thousands, except for percentages)					
Sales of raw materials and accessory parts	5,851	0.9	10,249	1.4	20,739	2.6
Rental income on investment properties and equipment	2,534	0.4	2,530	0.3	2,308	0.3
Bank interest income	1,096	0.2	3,167	0.4	3,335	0.4
Investment income from structured deposit	–	–	1,189	0.2	2,266	0.3
Repair and maintenance service income	845	0.1	8,086	1.1	9,189	1.1
Government grants	11,734	1.8	4,747	0.6	7,278	0.9
Value added tax refund	8,373	1.2	9,901	1.4	11,452	1.3
Trademark licensing income	–	–	2,590	0.4	2,904	0.4
Finance income on the net investment in a lease	–	–	43	0.0	99	–
Others	190	0.0	239	0.0	528	0.1
Total	30,623	4.6	42,741	5.8	60,098	7.4

During the Track Record Period, we disposed unused raw materials and accessory parts from time to time to third parties mainly to improve our inventory management, and we also sold accessory parts to our distributors for their fulfillment of repair and maintenance services. The aggregate gains on such disposal amounted to RMB5.9 million, RMB10.2 million and RMB20.7 million in 2019, 2020 and 2021, respectively.

We currently leased properties located in Wuhan city and Zhongshan city to third parties under lease agreements for their use of office spaces and manufacturing plant, respectively. Rental income generated from such leases amounted to RMB1.4 million, RMB1.4 million and RMB1.5 million in 2019, 2020 and 2021, respectively. In addition, in connection with the lease of manufacturing plant located in Zhongshan city to an independent third party, we also leased production and assembling equipment to such third party and received rental income in the amount of RMB1.1 million, RMB1.1 million and RMB0.8 million, respectively, in 2019, 2020 and 2021.

During Track Record Period, we invested in structured deposits issued by commercial banks with a fixed short term of seven months and not redeemable before their respective expiry dates. Return on such structured deposits was typically based on an interest rate linked to the Shanghai Interbank Offered Rate (SHIBOR). We invested in structured deposits to facilitate our cash management. We have implemented capital and investment policies to monitor and control the risks relating to our investment activities. Substantially all of the structured deposits we invested during the Track Record Period were principal protected in nature pursuant to the relevant agreements.

We only purchased short-term low-risk wealth management products, under the premises that our operations are not interrupted and the relevant risks are under control and for the purpose of better cash management. The risk exposure from the structured deposits mainly involves the fluctuation in the rates of return. To limit such risk exposure, we have implemented capital and investment policies to monitor and control the risks in connection with such investments, which include:

- We are allowed to purchase wealth management products in accordance with our cash management policies and internal approval process only when we have surplus cash. We mainly consider the amount of our available funds and future capital needs while ensuring liquidity safety under the principle of maximizing the return on funds, and our investments with respect to structured deposits and wealth management products for each year shall be approved by our designated executive Director.

- We have implemented internal control measures to mitigate the investment risks of our investments. First, we only invest in wealth management products with low risk and high liquidity, which are invested in fixed income products and could not be used to invest in other financial products such as stocks and their derivatives and unsecured bonds which may cause uncontrollable risks. Moreover, we only purchased structured deposits from reputable commercial banks. The structured deposits and wealth management products we purchased usually have an average term of less than one year.

- Our finance department is responsible for preparing the investment allocation schemes based on our surplus cash and the comparison of the safety, liquidity and estimated returns of the wealth management products of various financial institutions. An investment allocation scheme shall only be implemented after it is approved from the head of the finance department, our general manager and our finance director and the relevant contracts are reviewed and confirmed by our legal department. Our head of finance department, our general manager and our finance director generally have over 10 years of experience in financial management. When deciding whether to invest in the wealth management products, we mainly considers: (i) the current bank deposit interest rate, (ii) the market condition of the underlying assets such as interest rates, market indexes and currency exchange rates, (iii) our future cash flow and cash requirements, as well as our overall risk exposure, risk concentration and risk diversification, and (iv) the creditability and our historical relationships with the relevant financial institutions, so as to achieve our best interest. There are designated personnel from the finance department to closely monitor and analyze the wealth management products we have purchased, and shall take risk control measures immediately once any circumstance that may adversely affect the safety of the investment is identified. In addition, the relevant personnel shall also redeem the investments in a timely manner when the investment term expires, so as to ensure a safe collection of our investments.

After [**REDACTED**], we intend to continue our investments in the structured deposits and wealth management products strictly in accordance with our internal policies and guidelines, Articles of Associations, and the requirements under Chapter 14 of the Listing Rules.

We provide repair and maintenance service for products of which the warranty had expired, for which we charge service fees. In particular, in late 2019, we fully launched the mail-in repair and maintenance service to provide better customer services. During the Track Record Period, repair and maintenance service income amounted to RMB0.8 million, RMB8.1 million and RMB9.2 million in 2019, 2020 and 2021, respectively.

Government grants mainly referred to local government subsidies for the purpose of supporting our research and development activities, which were recognized as other income when the incurred operating expenses fulfilled the conditions attached. There were no unfulfilled conditions or other contingencies attaching to the government grants that have been recognized. The government subsidies are discretionary and non-recurring in nature.

In 2020, we licensed a trademark to an independent third party that we have registered and collected license fees, which amounted to RMB2.6 million in 2020. In 2021, we collected the trademark license fees in the amount of RMB2.9 million. The license agreement will expire on December 31, 2021.

Selling and Distribution Expenses

The following table sets forth a breakdown of major components of our selling and distribution expenses, in absolute amounts and as percentages of revenue, for the periods indicated.

	Year Ended December 31,					
	2019		2020		2021	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(In thousands, except for percentages)					
Advertising and marketing expenses	27,801	4.2	30,173	4.1	24,290	3.0
Staff costs	9,764	1.5	11,764	1.6	15,934	2.0
Maintenance expenses	18,171	2.7	20,780	2.8	16,267	2.0
Travel and conference expenses	4,934	0.7	5,366	0.7	6,749	0.8
E-commerce related expenses	1,673	0.2	4,218	0.6	8,157	1.0
Others	1,147	0.2	1,862	0.3	1,663	0.2
Total	63,490	9.5	74,163	10.1	73,060	9.0

Our selling and distribution expenses primarily consist of advertising and marketing expenses, sales and marketing staff expenses, maintenance expenses, travel and conference expenses, e-commerce related expenses, and other expenses relating to the marketing and sales of our products. Selling and distribution expenses increased by 16.8% from 2019 to 2020, which was primarily attributable to our strengthened online marketing efforts to promote our online operations, and increases in staff expenses, office and other miscellaneous selling and marketing expenses in response to our business growth. Selling and distribution expenses decreased by 1.5% from 2020 to 2021, which was primarily due to a decrease of RMB5.9 million in advertising and marketing expenses as our expenses in connection with television advertising placements were relatively higher during the COVID-19 pandemic in 2020 and a decrease of RMB4.5 million in maintenance expenses mainly resulting from our generally enhanced product quality, partially offset by an increase in staff costs of RMB4.2 million as we enhanced incentives for selling and marketing personnel since our business operations gradually recovered from the COVID-19 pandemic and an increase of RMB3.9 million in e-commerce related expenses.

Advertising and marketing expenses primarily include expenses incurred in connection with our advertisement placements and other related marketing events.

Maintenance expenses mainly referred to expenses relating to the repair and maintenance services we offered to our customers within relevant product warranty period.

E-commerce related expenses primarily referred to the expenses we incurred in connection with the development of our online operations, which increased significantly during the Track Record Period as we strengthened our online strategy.

Other selling and distribution expenses mainly included office and entertainment expenses, professional service fees in connection with our marketing activities and other miscellaneous expenses.

Administrative Expenses

Administrative expenses primarily consist of management and administrative staff costs, professional fees, depreciation and amortization expenses, maintenance expenses, and other general office expenses and miscellaneous expenses. Our administrative expenses continued to increase during the Track Record Period which was generally in line with our business growth.

The following table sets forth a breakdown of key components of our administrative expenses, in absolute amounts and as percentages of revenue, for the periods indicated.

	Year Ended December 31,					
	2019		2020		2021	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(In thousands, except for percentages)					
Staff costs	13,348	2.0	13,077	1.8	12,433	1.5
Professional service fees	2,055	0.3	3,014	0.4	2,092	0.3
Depreciation and amortization	1,042	0.2	1,531	0.2	1,869	0.2
Maintenance expenses	1,761	0.3	1,282	0.2	1,999	0.2
Office and traveling expenses	645	0.1	939	0.1	1,347	0.2
Impairment/(reversal of impairment) of financial assets	(243)	(0.0)	276	0.0	429	0.1
Utility expenses	217	0.0	281	0.0	349	–
[REDACTED]	–	–	–	–	[REDACTED]	[REDACTED]
Others	1,378	0.1	1,465	0.3	1,984	0.3
Total	20,203	3.0	21,865	3.0	[REDACTED]	[REDACTED]

Professional service fees primarily referred to service fees paid to third parties we engaged for various professional services, such as legal counsel fees, agency fees for trademark registration, and property valuation fees and so on.

Maintenance expenses mainly referred to the expenses incurred in connection with the renovation and upgrades of offices and other fixed assets.

Impairment loss during the Track Record Period were mainly related to unrecovered trade receivables. We recorded a reversal of impairment loss in 2019 because we estimated the risk of noncollectability was low as we successfully collected certain aging trade receivables in the relevant period.

Research and Development Expenses

The following table sets forth a breakdown of key components of our research and development expenses, in absolute amounts and as percentages of revenue, for the periods indicated.

	Year Ended December 31,					
	2019		**2020**		**2021**	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(In thousands, except for percentages)					
Staff costs	9,795	1.5	10,370	1.4	16,838	2.1
Material costs	12,112	1.8	8,228	1.1	4,207	0.5
Professional service fees	9,305	1.4	7,902	1.1	17,653	2.2
Depreciation and amortization	924	0.1	561	0.1	1,045	0.1
Office and traveling expenses	1,261	0.2	520	0.1	1,063	0.1
Others	3,031	0.4	2,630	0.3	3,064	0.4
Total	36,428	5.4	30,211	4.1	43,870	5.4

Our research and development expenses primarily consist of expenses in connection with our research and development activities for our hardware products as well as related operating systems and other software applications, which included research and development staff expenses, professional service fees, such as product design, material costs, depreciation and amortization, other general office expenses and miscellaneous expenses.

Our major research and development products during the Track Record Period included applications of low power consumption for voice activated wake-up function, research and realization of generating and synergizing images based on a multi-camera system, algorithm of GPS for smartwatches and so on.

Our research and development expenses fluctuated during the Track Record Period, which was mainly in line with the scale of undergoing development projects in the relevant periods. Our research and development expenses was relatively high in 2019, which was primarily because our pipeline then had a larger portion of hardware product development projects then, causing increases in material used, professional fees and other related expenses. Research and development expenses increased by 45.2% from 2020 to 2021, primarily due to our increased staff costs to motivate our research and development personnel as well as the increases in professional service fees, reflecting the enhanced research and development activities in the relevant period.

Other Expenses

The following table sets forth the components of other expenses in absolute amounts and as percentages of revenue for the periods indicated.

	Year Ended December 31,					
	2019		**2020**		**2021**	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(In thousands, except for percentages)					
Cost of raw materials and accessory parts sold	5,029	0.7	10,249	1.4	15,716	2.0
Cost of maintenance	47	0.0	2,142	0.3	2,636	0.3
Leases	1,732	0.3	1,735	0.2	1,195	0.1
Compensation	562	0.1	460	0.1	826	0.1
Exchange loss	–	–	–	–	1,814	0.2
Others	382	0.1	481	0.1	680	0.1
Total	7,752	1.2	15,067	2.1	22,867	2.8

We incurred cost of raw materials and accessory parts sold when we disposed such materials and parts during the Track Record Period, which primarily represented the purchase amounts we previously incurred for the relevant raw materials and parts. The higher cost of raw materials and accessory parts sold in 2020 and 2021 was primarily due to a larger amount of raw materials we disposed in these periods as we strategically restructured our product mix.

Cost of maintenance was mainly relating to the repair and maintenance services for products of which the warranty had expired. In particular, in late 2019, we fully launched the mail-in repair and maintenance service to provide better customer services, which caused the significant increase in cost of maintenance from 2019 to 2020, which continued to increase in 2021.

Lease costs primarily related to the amortization, utilities and other costs incurred in connection with our properties leased to third parties.

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. The lawsuits were settled by mediation and case withdrawal by the plaintiff. We had fully paid up the settlement fee by the end of 2019. 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. In 2021, a third party publisher sued us for violating its copyright relating to certain content owned by it by duplicating and distributing such content without its authorization. In April 2021, we decided to settle the case and agreed to pay the settlement fee in the amount of approximately RMB0.5 million, which had been fully settled as of the Latest Practicable Date. 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 the aggregate amount of RMB1.0 million. 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 settlement of lawsuits during the Track Record Period is insignificant.

Exchange loss incurred in 2021 was in connection with the [**REDACTED**] received from our [**REDACTED**] Investors denominated in U.S. dollars, which was a result of the appreciation of Renminbi in the relevant period.

Finance Costs

Finance costs primarily consisted of interest on bank borrowings, which amounted to RMB1.2 million, RMB0.3 million and nil, respectively, in 2019, 2020 and 2021. We had outstanding bank borrowings in the amount of RMB10.0 million, nil and nil, respectively, as of December 31, 2019, 2020 and 2021. Such borrowings were secured by the pledge of deposits by Mr. Qin and were used to finance our daily operations. The pledge provided by Mr. Qin had been fully released as of the Latest Practicable Date.

Finance costs also included interest on amounts due to a Shareholder, which amounted to RMB28.0 thousand, nil and nil, respectively, in 2019, 2020 and 2021. Such amounts represented the borrowings we obtained from Mr. Qin prior to the Track Record Period, mainly for the purchases of properties for our research and development, production and administration purposes and cash advances for our daily operations. We had paid up all the amounts due to Mr. Qin by the end of 2019.

We also incurred interest on lease liabilities of RMB42.0 thousand, RMB71.0 thousand and RMB88.0 thousand, respectively, in 2019, 2020 and 2021.

Changes in Fair Value of Financial Liabilities at Fair Value Through Profit or Loss

On March 24, 2021, we issued an aggregate of 67,288 shares with a par value of HK$0.001 each to three [**REDACTED**] Investors, namely Glorious Achievement Investments Limited, Golden Genius International Limited and Mr. Cheng Yangshi, at a total consideration of US$22.7 million (equivalent to RMB147.0 million). The [**REDACTED**] Investors have the right to mandate us to repurchase all their equity interests in us at an annual interest rate of 8% (simple interest) if a qualified [**REDACTED**] (as defined in the relevant share purchase agreements, i.e. our [**REDACTED**] of the shares and [**REDACTED**] on a renowned securities exchange within or outside mainland China) does not happen within three years after March 23, 2021, being the completion date of the relevant share purchase agreements. This repurchase right granted to the [**REDACTED**] Investors would terminate upon the [**REDACTED**]. See the paragraph headed "History, Reorganization and Corporate Structure – [**REDACTED**] Investments" of this document for more details. The investments were classified as financial liabilities and designated upon initial recognition as fair value through profit or loss and will be derecognized from financial liabilities and reclassified under our equity upon the lapse of repurchase right upon the [**REDACTED**] and the completion of the [**REDACTED**].

There were no transfers of fair value measurements between level 1 and level 2 and no transfers into or out of level 3 for both financial assets and financial liabilities during the Track Record Period.

We have engaged an independent and qualified valuer to determine the fair value of the investments mentioned above as financial liabilities. The fair value is established by using valuation techniques which include back-solve method and adopted equity allocation model. Valuation techniques are certified by the valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make the maximum use of market inputs and rely as little as possible on our own specific data. However, it should be noted that some inputs, such as risk-free interest rate, volatility, possibilities under different scenarios including [**REDACTED**] and redemption, and time to liquidation, require management estimates. Our finance department is responsible for determining the policies and procedures for the fair value measurement of financial liabilities. The finance manager reports directly to our chief financial officer. At each reporting date, the finance department analyzes the movements in the values of financial liabilities and determines the major inputs applied in the valuation. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with our board of directors for annual financial reporting.

In relation to the valuation of the financial liabilities, our Directors, based on the professional advice received, adopted the following procedures: (i) reviewed the terms of the share purchase agreements; (ii) engaged independent business valuer, provided necessary financial and non-financial information so as to enable the valuer to perform valuation procedures and discussed with the valuer on relevant assumptions; (iii) carefully considered all information, especially those non-market related information input, such as risk-free interest rate, volatility, possibilities under different scenarios including [**REDACTED**] and redemption, and time to liquidation, which require management assessments and estimates; and (iv) reviewed the valuation working papers and results prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis on the financial liabilities that were classified in level 3 performed by the valuer is fair and reasonable, and the financial statements of our Group are properly prepared.

Details of the fair value measurement of the financial liabilities, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in notes 27 and 35 to the Accountants' Report issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants in Appendix I to this document. The Reporting Accountants' opinion on the historical financial information of our Group for the Track Record Period as a whole is set out on I-2 of Appendix I.

In relation to the valuation analysis performed by the valuer on the financial liabilities, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) review the relevant notes in the Accountants' Report as contained in Appendix I; (ii) review the valuation report issued by the valuer; and (iii) discussed with the Company, the Reporting Accountants and the valuer to understand the key basis and assumptions for the valuation of the financial liabilities. Having considered the work done by the Directors and Reporting Accountants and the relevant due diligence done as stated above, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the valuation analysis performed by the valuer on the financial liabilities.

Income Tax Credit/(Expense)

Our subsidiaries in the PRC are subject to a variety of taxes and charges, mainly including current and deferred corporate income tax. Our corporate income tax expenses generally increased during the Track Record Period, reflecting the growth of our business, thus, an increase in our taxable income.

For the years ended December 31, 2019 and 2020, our effective corporate income tax rate was 8.5% and 10.5%, respectively, while we had a negative effective corporate income tax rate of 14.1% for year ended December 31, 2021. Our effective tax rate for the years ended December 31, 2019 and 2020 was lower than the PRC statutory income tax rate of 25%, primarily because a subsidiary of us enjoyed the certain deduction of research and development expenses and a preferential income tax rate of 15% from 2018 to 2020 as a qualified Hi-Tech Enterprise, and another subsidiary enjoyed a preferential income tax rate of 12.5% in 2019 and 2020 due to being a qualified software company. We recorded a negative effective corporate income tax rate of 14.1% for the year ended December 31, 2021, which was mainly because we recorded tax credits as a result of preferential tax reduction for one subsidiary and tax losses incurred by certain subsidiaries resulting from operating loss or deferred tax losses.

TAXATION

Cayman Islands

We are incorporated in the Cayman Islands as an exempt company with limited liability. Under the current law of the Cayman Islands, we are not subject to income or capital gains tax in the Cayman Islands.

Hong Kong

No provision for Hong Kong profits tax has been made during the Track Record Period as we did not generate any assessable profits arising in Hong Kong.

PRC

Pursuant to the EIT Law, a uniform 25% enterprise income tax rate is generally applied to both foreign-invested enterprises and domestic enterprises, except where a special preferential rate applies. Certain of our subsidiaries are subject to preferential income tax rates during the Track Record Period.

We did not declare any dividends in 2019, nor did we declare any dividends in the year ended December 31, 2021. We declared dividends of RMB160.0 million in November 2020 to the then shareholders, which we expect to pay prior to the [**REDACTED**]. Moreover, our Group's funds are expected to be retained in mainland China for our operations and we do not expect our PRC subsidiaries to distribute such earnings in the foreseeable future. Therefore no deferred income tax needs to be recognized for withholding tax on dividends payable to non-PRC resident corporate investors.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

Our revenue increased by approximately 10.8% from RMB734.0 million in 2020 to RMB813.2 million in 2021. The increase was primarily due to the increase in revenue derived from the sales of our product, in particular, personal student tablets, and wearable products, which was mainly attributable to the improvements in product mix, where the proportion of high-end product models with higher selling prices, such as our C30 personal student tablet which generally has a retail selling price of approximately RMB5,000, increased as well as our increased brand recognition and market acceptance of our products. The increase was also in part attributable to our efforts in expanding our offline distribution network.

By product categories

The table below sets forth a summary of revenues derived from each of our product categories:

	Year Ended December 31,			
	2020		2021	
	RMB	%	*RMB*	%
	(In thousands, except for percentages)			
Personal student tablets				
Devices[1]	550,702	75.0	571,626	70.3
Digital educational resources and services[1]	114,226	15.6	133,397	16.4
Sub-total	664,928	90.6	705,023	86.7
Smart classroom solutions				
Devices[1]	20,419	2.8	19,300	2.4
Digital educational resources and services[1]	1,874	0.3	4,279	0.5
Sub-total	22,293	3.1	23,579	2.9
Wearable products	31,664	4.3	53,695	6.6
Other products	2,144	0.2	17,918	2.2
Advertisement and content licensing	12,968	1.8	12,966	1.6
Total	733,997	100.0	813,181	100.0

Note:

(1) During the Track Record Period, we did not separately charge fees based on digital educational resources we have offered. Instead, we consider the value of our personal student tablets and the smart classroom solutions represent the aggregate value of the hardware devices, and the associated digital educational resources and services. As such, revenue derived from devices is recognized at the point in time when control of the devices is transferred to the customers. Revenue derived from of the digital educational resources and services is recognized over the estimated user life on a straight-line basis.

Revenue derived from sales of personal student tablets increased by approximately 6.0% from 2020 to 2021. The increase in revenue was mainly due to the improvement of our product mix where the proportion of high-end product models with higher selling prices increased as we continued to upgrade the devices in response to the evolving market trend. The aggregate shipments of our personal student tablets amounted to 484.6 thousand units and 458.8 thousand units, respectively, in 2020 and 2021. The decrease in total shipment from 2020 to 2021 was primarily due to the shortage in certain key materials. In 2020, the price range of our most popular mid-end personal student tablets was around RMB1,280 to RMB1,740, gross sales of which accounted for over 60% of total gross sales in this period, while the price range of our most popular high-end personal student tablets was around RMB1,830 to RMB2,130, gross sales of which accounted for approximately 13% of total gross sales in this period. In 2021, the price range of our most popular mid-end personal student tablets was around RMB1,360 to RMB1,840, gross sales of which accounted for over 40% of total gross sales in this period, while the price range of our most popular high-end personal student tablets was around RMB2,030 to RMB2,400, gross sales of which accounted for over 20% of total gross sales in this period. Certain product models were also subject to price increases.

Revenue from sales of smart classroom solutions increased by approximately 5.8% from 2020 to 2021. The increase was mainly due to the improvement in product mix. The total device shipments of our smart classroom solutions were 21.3 thousand units and 19.9 thousand units in the year ended December 31, 2020 and 2021, respectively. We supplied our smart classroom solutions to 50 and 113 schools, respectively, in the relevant periods. 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.

Revenue from wearable products increased by 69.6% from RMB31.7 million in 2020 to RMB53.7 million in 2021, primarily due to the increasing sales volume arising from the clearance sales of old product models and the acceptance of our upgraded smartwatch models, especially those new models introduced to the market. To a lesser extent, the increase was also a result of the increased marketing and sales efforts of our distributors.

Revenue from other products amounted to RMB2.1 million and RMB17.9 million in 2020 and 2021, respectively. Revenue from such product category fluctuated mainly due to the different product portfolio in each period. The increase was primarily a result of our product mix improvement by introducing a new other product, smart scanner pens. For example, our smart scanner pen model D1 was well welcomed by the market and the number of this model sold in the year ended December 31, 2021 exceeded 32,880 units with a total gross sales exceed RMB14.5 million in the same period.

Revenue derived from businesses in connection with advertisement and content licensing remained relatively stable at RMB13.0 million and RMB13.0 million in 2020 and 2021 respectively.

By sales channels

The table below sets forth a summary of revenues derived from each of our sales channels:

	Year Ended December 31,			
	2020		2021	
	RMB	*%*	*RMB*	*%*
	(In thousands, except for percentages)			
Offline distributors	624,009	85.0	695,641	85.5
Self-operated online platforms	21,619	2.9	29,937	3.7
Online distributors	75,401	10.3	74,637	9.2
Others	12,968	1.8	12,966	1.6
Total	733,997	100.0	813,181	100.0

Revenue from offline distributors increased by approximately 11.5% from 2020 to 2021, which was mainly due to the continuous expansion and upgrade of our offline distribution network and the continuous improvements in our product mix, where the proportion of high-end product models with higher selling prices increased. The number of our contracted offline distributors increased from 86 as of December 31, 2020 to 123 as of December 31, 2021, while the aggregate points of sales controlled by these offline distributors increased from 3,386 to 4,302 over the same period.

Revenue from our self-operated online platforms increased by approximately 38.5% from 2020 to 2021, primarily due to our strengthened efforts in developing our online operations.

Revenue generated from online distributors slightly decreased from RMB75.4 million in 2020 to RMB74.6 million in 2021. We engaged 9 and 16 online distributors in 2020 and 2021, respectively. The decrease in revenue attributable to online distributors was primarily because we strategically focused on and relocated resources to our self-operated online channels in 2021.

Revenue derived from others represent the small portion of revenue from third parties who placed in-app advertisements with us and third parties who offered our licensed digital educational resources on their platforms under profit-sharing arrangements. It remained relatively stable at RMB13.0 million and RMB13.0 million in 2020 and 2021, respectively.

Cost of Sales

Our cost of sales increased by approximately 21.0% from RMB532.3 million in 2020 to RMB644.0 million in 2021. The increase was primarily due to an increase in the raw material costs. To a lesser extent, the increase was also due to an increase in staff costs over the same periods.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 16.1% from RMB201.7 million in 2020 to RMB169.2 million in 2021. Our gross profit margin decreased from 27.5% in 2020 to 20.8% in 2021, primarily due to a general increase in raw materials costs.

By product categories

The following table sets forth a breakdown of our gross profit and gross profit margin by product categories for the periods indicated.

	Year Ended December 31,			
	2020		2021	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*
Personal student tablets				
Devices[(1)]	108,642	19.7	51,353	9.0
Digital educational resources and services[(1)]	74,326	65.1	89,320	67.0
Sub-total	182,968	27.5	140,673	20.0
Smart classroom solutions				
Devices[(1)]	2,883	14.1	1,809	9.4
Digital educational resources and services[(1)]	1,219	65.0	2,853	66.7
Sub-total	4,102	18.4	4,662	19.8
Wearable products	3,446	10.9	7,884	14.7
Other products	3	0.1	5,432	30.3
Advertisement and content licensing	11,193	86.3	10,521	81.1
Total	201,712	27.5	169,172	20.8

Both gross profit and gross profit margin of our personal student tablets decreased from 2020 to 2021, primarily due to a general increase in raw materials costs. For example, with respect to the top 10 best-selling personal student tablet models in each of the periods, raw material cost of integrated circuits and screens, two major components of personal student tablet models that typically in aggregate accounted for approximately 60% of total raw material costs for personal student tablets, increased by approximately 12.2% and 43.5%, respectively, and their respective average cost per unit increased by approximately 25.9% and 61.1%, respectively, from 2020 to 2021.

Gross profit of our smart classroom solutions increased by approximately 13.7% from 2020 to 2021, and gross profit margin of smart classroom solutions slightly increased from 18.4% in 2020 to 19.8% in 2021, which were primarily due to the increase in the proportion of upgraded product models which generally carried a higher selling price and a higher gross profit margin, partially offset the adverse impact of the increase in raw material costs. For example, we sold over 6,180 units of model T11, our best-selling smart classroom solution model generally carrying a relatively higher gross profit margin, in the year ended December 31, 2020, which increased to over 12,450 units in the corresponding period in 2021.

Gross profit of our wearable products increased significantly by 128.8% from 2020 to 2021, primarily due to the increasing sales volume arising from the clearance sales of our old product models and our continuous efforts in launching new product models which were welcomed by the market as well as our enhanced promotional activities for such products. Gross profit margin of wearable products increased from 10.9% in 2020 to 14.7% in 2021.

In the years ended December 31, 2020 and 2021, we recorded gross profit of other products in the amount of RMB3.0 thousand and RMB5.4 million, respectively. The fluctuation was primarily in relation to the different product portfolio in the relevant periods.

Gross profit in connection with businesses of advertisement and content licensing amounted to RMB11.2 million and RMB10.5 million, in 2020 and 2021, respectively. Gross profit margin decreased from 86.3% in 2020 to 81.1% in 2021, primarily due to an increasing costs we incurred in connection with the development of such advertising and content licensing business, such as relevant labor costs, bandwidth expenses as well as expenses in connection with content development.

By sales channels

The following table sets forth a breakdown of our gross profit and gross profit margin by sales channels for the periods indicated.

	Year Ended December 31,			
	2020		2021	
	RMB'000	*%*	*RMB'000*	*%*
Offline distributors	161,313	25.9	126,393	18.2
Self-operated online platforms	12,300	56.9	16,545	55.3
Online distributors	16,906	22.4	15,713	21.1
Others	11,193	86.3	10,521	81.1
Total	201,712	27.5	169,172	20.8

Gross profit of offline distributors decreased by approximately 21.6% from 2020 to 2021. Gross profit margin of offline distributors also decreased in the relevant periods. Such decreases were primarily due to a general increase in raw materials costs.

Gross profit of self-operated online platforms increased by approximately 34.5% from 2020 to 2021, mainly due to the increase in sales as we strengthened the efforts in developing our online operations. Gross profit margin of self-operated online platforms slightly decreased from 2020 to 2021. Such decreases were primarily due to a general increase in raw material costs.

Gross profit of online distributors slightly decreased from 2020 to 2021, primarily because we strategically focused on developing our self-operated online channels. Gross profit margin of online distributor slightly decreased from 2020 to 2021 as a result of a general increase in raw material costs, which was partially offset by the impact from product mix improvement.

Other Income and Gains

Other income and gains increased by 40.6% from RMB42.7 million in 2020 to RMB60.1 million in 2021, which was mainly due to an increase of RMB10.5 million in the sales of raw materials and accessory.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 1.5% from 2020 to 2021, which was primarily due to a decrease of RMB5.9 million in advertising and marketing expenses as our expenses in connection with television advertising placements were relatively higher during the COVID-19 pandemic in 2020 and a decrease of RMB4.5 million in maintenance expenses mainly resulting from our generally enhanced product quality, partially offset by an increase in staff costs of RMB4.2 million as we enhanced incentives for selling and marketing personnel since our business operations gradually recovered from the COVID-19 pandemic and an increase of RMB3.9 million in e-commerce related expenses.

Administrative Expenses

Our administrative expenses increased by 101.3% from RMB21.9 million in 2020 to RMB44.0 million in 2021, primarily due to the [**REDACTED**] of RMB[**REDACTED**] we incurred in connection with this [**REDACTED**].

Research and Development Expenses

Our research and development expenses increased by 45.2% from RMB30.2 million in 2020 to RMB43.9 million in 2021, primarily due to our increased staff costs to motivate our research and development personnel as well as the increases in professional service fees, reflecting the enhanced research and development activities in the relevant period.

Other Expenses

Increased by approximately 51.8% from RMB15.1 million in 2020 to RMB22.9 million in 2021, primarily due to (i) an increase of RMB5.5 million in cost of raw materials and accessory parts sold and (ii) exchange loss of RMB1.8 million recorded in 2021 in connection with the [**REDACTED**] received from our [**REDACTED**] Investors denominated in U.S. dollars, resulting from the appreciation of Renminbi during 2021.

Finance Costs

Finance costs decreased by approximately 75.5% from RMB0.4 million in 2020 to RMB88.0 thousand in 2021, primarily due to a decrease of RMB0.3 million in interest on our bank borrowings as we paid up the outstanding borrowings in 2020.

Changes in Fair Value of Financial Liabilities at Fair Value Through Profit or Loss

We recorded changes in fair value of financial liabilities at fair value through profit or loss of RMB26.6 million in 2021, which was related to the issue of an aggregate of 67,288 shares to three [**REDACTED**] Investors at a total consideration of US$22.7 million (equivalent to RMB147.0 million). See "– Description of Certain Major Components of Our Consolidated Statement of Comprehensive Income – Changes in Fair Value of Financial Liabilities at Fair Value Through Profit or Loss" above for more details.

Profit Before Tax

As a result of the foregoing, our profit before tax decreased by 29.9% from RMB102.8 million in 2020 to RMB72.0 million in 2021.

Income Tax Credit/(Expense)

We recorded income tax credit of RMB10.1 million in 2021, mainly as a result of preferential tax reduction for one subsidiary and tax losses incurred by certain subsidiaries resulting from operating loss or deferred tax losses. Income tax expenses amounted to RMB10.8 million in 2020.

Profit for the Year

As a result of the foregoing, we recognized profit for the year of RMB92.0 million and RMB82.1 million in 2020 and 2021, respectively.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Our revenue increased by approximately 9.6% from RMB669.9 million in 2019 to RMB734.0 million in 2020. The increase was primarily due to the increase in revenue derived from the sales of our personal student tablets and smart classroom solutions, which was mainly attributable to the expansion of our offline distribution network. The increase in revenue was also attributable to the continuous improvements in product mix, where the proportion of high-end product models with higher selling prices increased as well as our increased brand recognition and market acceptance of our products.

By product categories

The table below sets forth a summary of revenues derived from each of our product categories:

	Year Ended December 31,			
	2019		2020	
	RMB	%	*RMB*	%
	(In thousands, except for percentages)			
Personal student tablets				
Devices[1]	448,321	66.9	550,702	75.0
Digital educational resources and services[1]	93,173	13.9	114,226	15.6
Sub-total	541,494	80.8	664,928	90.6
Smart classroom solutions				
Devices[1]	7,249	1.1	20,419	2.8
Digital educational resources and services[1]	914	0.1	1,874	0.3
Sub-total	8,163	1.2	22,293	3.1
Wearable products	111,778	16.7	31,664	4.3
Other products	5,987	0.9	2,144	0.2
Advertisement and content licensing	2,431	0.4	12,968	1.8
Total	669,853	100.0	733,997	100.0

Note:

(1) During the Track Record Period, we did not separately charge fees based on digital educational resources we have offered. Instead, we consider the value of our personal student tablets and the smart classroom solutions represent the aggregate value of the hardware devices, and the associated digital educational resources and services. As such, revenue derived from devices is recognized at the point in time when control of the devices is transferred to the customers. Revenue derived from of the digital educational resources and services is recognized over the estimated user life on a straight-line basis.

Revenue derived from sales of personal student tablets increased by approximately 22.8% from 2019 to 2020. The increase in revenue was mainly due to the increase in total sales volumes, which was a result of the development of our distribution network as well as our increased brand recognition and market acceptance of our products, which, in turn, due to the improvement of our product mix where the proportion of high-end product models with higher selling prices increased as we continued to upgrade the devices in response to the evolving market trend. The aggregate shipments of our personal student tablets amounted to 456.9 thousand units and 484.6 thousand units, respectively, in 2019 and 2020. In 2019, the price range of our most popular mid-end personal student tablets was around RMB1,250 to RMB1,500, gross sales of which accounted for approximately 35% of total gross sales in this period, while the price range of our most popular high-end personal student tablets was around RMB1,590 to RMB1,800, gross sales of which accounted for approximately 26% of total gross sales in this period. In 2020, the price range of our most popular mid-end personal student tablets was around RMB1,280 to RMB1,690, gross sales of which accounted for approximately 60% of total gross sales in this period, while the price range of our most popular high-end personal student tablets was around RMB1,950 to RMB2,120, sales of which accounted for approximately 14% of total gross sales in this period. Certain product models were also subject to price increases. For example, sales of model C20 (256GB) increased by over 18,000 units and its selling price increased by approximately RMB400.

Revenue from sales of smart classroom solutions increased by approximately 173.1% from 2019 to 2020. The increase was mainly due to our efforts in promoting such business and our deepened business relationship with competent offline distributors who had strong local resources to approach potential school customers. To a lesser extent, the increase was also attributable to the relevant education related policies promulgated by local and central governments promoting digitalization of education. The total device shipments of our smart classroom solutions were 7.1 thousand units and 21.3 thousand units in 2019 and 2020, respectively. We supplied our smart classroom solutions to 65 and 50 schools in 2019 and 2020, respectively.

Revenue from wearable products decreased by 71.7% from 2019 to 2020, which was mainly because we optimized the distribution and product development strategies in light of our wearable products in response to the decline in the purchase amount of certain key customers of such products and the general market trends in such periods.

Revenue from other products amounted to RMB6.0 million and RMB2.1 million in 2019 and 2020, respectively. Revenue from such product category fluctuated mainly due to the different product portfolio in each period. The decrease was primarily due to a decrease in sales by units across various models of smart reader pens as we optimized product mix and invested more resources in the preparation for the launch of new smart scanner pens.

Revenue derived from businesses in connection with advertisement and content licensing increased significantly from 2019 to 2020 primarily due to our expanded user base and the increasing acceptance of our smart learning devices and associated digital educational resources, which attracted additional third parties to place advertisements with us or to offer our licensed digital educational resources on their platforms.

By sales channels

The table below sets forth a summary of revenues derived from each of our sales channels:

	Year Ended December 31,			
	2019		**2020**	
	RMB	*%*	*RMB*	*%*
	(In thousands, except for percentages)			
Offline distributors	614,381	91.7	624,009	85.0
Self-operated online platforms	11,693	1.7	21,619	2.9
Online distributors	41,307	6.2	75,401	10.3
Others	2,472	0.4	12,968	1.8
Total	669,853	100.0	733,997	100.0

Revenue from offline distributors increased by approximately 1.6% from 2019 to 2020, which was mainly due to the continuous expansion and upgrade of our offline distribution network and the continuous improvements in our product mix, where the proportion of high-end product models with higher selling prices increased. The number of our contracted offline distributors increased from 58 as of December 31, 2019 to 86 as of December 31, 2020, while the aggregate points of sales controlled by these offline distributors increased from 2,905 to 3,386 over the same period.

Revenue from our self-operated online platforms increased by approximately 84.9% from 2019 to 2020, primarily due to our strengthened efforts in developing our online operations.

Revenue from our online distributors increased by 82.5% from 2019 to 2020, primarily due to our efforts to engage more online distributors and the expansion of their online presence. We engaged eight and nine online distributors in 2019 and 2020, respectively.

Revenue derived from others represent the small portion of revenue from third parties who placed in-app advertisements with us and third parties who offered our licensed digital educational resources on their platforms under profit-sharing arrangements. It increased from 2019 to 2020 primarily due to our expanded user base and the increasing acceptance of our smart learning devices and associated digital educational resources, which attracted additional third parties to place advertisements with us or to offer our licensed digital educational resources on their platforms.

Cost of Sales

Our cost of sales increased by approximately 7.4% from RMB495.5 million in 2019 to RMB532.3 million in 2020, primarily due to an increase in the raw material costs, which was in line with the increase in our sales, and was also in part due to the increasing prices of certain key raw materials, such as integrated circuits and display screens, which experienced a temporary shortage in supply in 2020. To a lesser extent, the increase was also due to an increase in server and bandwidth costs, which was mainly due to the significant growth of our online operations.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by approximately 15.7% from RMB174.4 million in 2019 to RMB201.7 million in 2020. Our gross profit margin slightly increased from 26.0% in 2019 to 27.5% in 2020.

By product categories

The following table sets forth a breakdown of our gross profit and gross profit margin by product categories for the periods indicated.

	Year Ended December 31,			
	2019		**2020**	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*
Personal student tablets				
Devices	94,433	21.1	108,642	19.7
Digital educational resources and services	58,193	62.5	74,326	65.1
Sub-total	152,626	28.2	182,968	27.5

	Year Ended December 31,			
	2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*
Smart classroom solutions				
Devices	1,844	25.4	2,883	14.1
Digital educational resources and services	571	62.5	1,219	65.0
Sub-total	2,415	29.6	4,102	18.4
Wearable products	15,877	14.2	3,446	10.9
Other products	1,393	23.3	3	0.1
Advertisement and content licensing	2,072	85.2	11,193	86.3
Total	174,383	26.0	201,712	27.5

Gross profit of our personal student tablets increased by approximately 19.9% from 2019 to 2020, primarily due to the continuous increase in the sales. Gross profit margin of personal student tablets decreased in 2020, which was mainly a result of the increase in raw material costs in 2020, in part resulting from the temporary global shortage of certain key raw materials. For example, with respect to the top 10 best-selling personal student tablet models in each of the years, raw material cost of integrated circuits and screens, two major components of personal student tablet models that typically in aggregate accounted for approximately 60% of total raw material costs for personal student tablets, increased by approximately 16.3% and 9.9%, respectively, and their respective average cost per unit increased by approximately 22.9% and 16.2%, respectively, from 2019 to 2020.

Gross profit of our smart classroom solutions increased by approximately 69.9% from 2019 to 2020, primarily due to the increased sales resulting from our efforts in promoting and marketing our smart classroom solutions. Gross profit margin of smart classroom solutions decreased from 29.6% in 2019 to 18.4% in 2020. Particularly, on the device level, gross profit margin decreased from 25.4% in 2019 to 14.1% in 2020, which was primarily due to the increase in raw material costs over the same periods. For example, with respect to the top three best-selling smart classroom solution models in each of these years, raw material cost of integrated circuits and screens, two major components of personal student tablet models that typically in aggregate accounted for approximately 60% of total raw material costs for these products, increased by approximately 81.0% and 83.8%, respectively, and their respective average cost per unit increased by approximately 2.3% and 3.9%, respectively, from 2019 to 2020. The decrease in gross profit margin was also partially due to our enhanced promotional activities, such as preferential pricing policies in favor of the distributors, so as to expand the market coverage for new models or to sell obsolete models more efficiently. For example, to sell the obsolete model T90, which used to carry a relatively higher gross profit margin, we significantly lowered its average selling price from approximately RMB1,390 per unit in 2019 to approximately RMB820 per unit in 2020.

Gross profit of wearable products deceased by RMB12.4 million from 2019 to 2020, primarily due to the decrease in sales. Gross profit margin of wearable products decreased from 2019 to 2020, primarily due to our enhanced promotional activities, such as preferential pricing policies in favor of the distributors, to better manage our inventory level.

In 2019 and 2020, we recorded gross profit of other products in the amount of RMB1.4 million and RMB3.0 thousand, respectively. The fluctuation was primarily in relation to the different product portfolio in the relevant periods.

Gross profit in connection with businesses of advertisement and content licensing experienced a significant increase from 2019 to 2020, primarily due to our expanded user base and the increasing acceptance of our smart learning devices and associated digital educational resources, which attracted additional third parties to place advertisements with us or to offer our licensed digital educational resources on their platforms. Gross profit margin of such business slightly increased mainly due to the economies of scale.

By sales channels

The following table sets forth a breakdown of our gross profit and gross profit margin by sales channels for the periods indicated.

	Year Ended December 31,			
	2019		**2020**	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*
Offline distributors	158,744	25.8	161,313	25.9
Self-operated online platforms	6,561	56.1	12,300	56.9
Online distributors	6,965	16.9	16,906	22.4
Others	2,113	85.5	11,193	86.3
Total	174,383	26.0	201,712	27.5

Gross profit of offline distributors slightly increased from 2019 to 2020, primarily due to significant increase in total sales. Gross profit margin of offline distributors remained stable at 25.8% and 25.9% in 2019 and 2020, respectively.

Gross profit of self-operated online platforms and online distributors both experienced a remarkable increase from 2019 to 2020, mainly due to the increase in sales as we strengthened the efforts in developing our online operations. Gross profit margin of self-operated online platforms remained relatively stable in 2019 and 2020. Gross profit margin of online distributors increased from 2019 to 2020, primarily due to the improvements in product mix, where the proportion of high-end product models with higher selling prices increased.

Other Income and Gains

Other income and gains increased by 39.6% from RMB30.6 million in 2019 to RMB42.7 million in 2020, which was mainly due to (i) an increase of RMB7.2 million in repair and maintenance service income; we fully launched the mail-in repair and maintenance service to provide better customer services since late 2019, which increased the amount of such services significantly in 2020, (ii) an increase of RMB4.4 million in sales of raw materials and accessory parts, primarily as a result of the one-off transaction that we disposed materials as we strategically restructured our product mix, and (iii) trademark licensing income in the amount of RMB2.6 million in 2020.

Selling and Distribution Expenses

Our selling and distribution expenses increased by approximately 16.8% from RMB63.5 million in 2019 to RMB74.2 million in 2020. Selling and distribution expenses as a percentage of total revenue slightly increased from 9.5% in 2019 to 10.1% in 2020. The increase was primarily attributable to (i) our strengthened online marketing efforts to promote our online operations, (ii) an increase in maintenance expense which was generally in line with the accumulated sales of our products, and (iii) increases in staff costs, office and other miscellaneous selling and marketing expenses in response to our business growth.

Administrative Expenses

Our administrative expenses increased by 8.2% from RMB20.2 million in 2019 to RMB21.9 million in 2020. Administrative expenses as a percentage of total revenue remained stable at 3.0% in 2019 and 2020. The increase in administrative expenses was primarily due to (i) the impairment loss of RMB0.3 million in 2020, as compared to a reversal of impairment loss of RMB0.2 million in 2019, and (ii) an increase of RMB1.0 million in professional service fees mainly in connection with patent and trademark applications.

Research and Development Expenses

Our research and development expenses decreased by 17.1% from RMB36.4 million in 2019 to RMB30.2 million in 2020. Research and development expenses as a percentage of total revenue decreased from 5.4% in 2019 to 4.1% in 2020. The decrease was primarily because our pipeline had a larger portion of hardware product development projects in 2019 than 2020, which led to decreases in material costs and professional service fees.

Other Expenses

Other expenses increased by approximately 94.4% from RMB7.8 million in 2019 to RMB15.1 million in 2020, which was mainly due to the one-off transaction that we disposed materials in the amount of approximately RMB6.6 million as we strategically restructured our product mix, causing a significant increase in cost of raw materials and accessory parts sold.

Finance Costs

Finance costs decreased by approximately 70.7% from RMB1.2 million in 2019 to RMB0.4 million in 2020, primarily due to a decrease of RMB0.9 million in interest on our bank borrowings as we paid up the outstanding borrowings.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 35.4% from RMB75.9 million in 2019 to RMB102.8 million in 2020.

Income Tax Expense

Income tax expenses amounted to RMB6.5 million and RMB10.8 million in 2019 and 2020, respectively, which was mainly due to the increase in our taxable income.

Profit for the Year

As a result of the foregoing, we recognized profit for the year of RMB69.4 million and RMB92.0 million, respectively, in 2019 and 2020.

ANALYSIS OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION BALANCE SHEET ITEMS

Investment Properties

We hold certain properties mainly for rental purpose and the appreciation of property value. The fair value of each of our investment properties has fluctuated, and is likely to continue to fluctuate, in accordance with the prevailing property market conditions. During the Track Record Period, we retained properties located in Wuhan city and Zhongshan city, which were leased to third parties under lease agreements for their use of office spaces and manufacturing plant, respectively. Such investment properties amounted to RMB14.4 million, RMB14.0 million and RMB13.6 million as of December 31, 2019, 2020 and 2021, respectively.

Inventories

Our inventories consist of raw materials, work in progress, finished goods and goods in transit. To minimize the risk of inventory buildup, we review our inventory levels on a regular basis. We believe that maintaining appropriate levels of inventories can help us better plan for the production and deliver our products to meet market demand in a timely manner without straining our liquidity. We adjust our raw material procurement according to our manufacturing processes, taking into account lead time required for each type of raw materials. The value of our inventories accounted for 56.1%, 37.9% and 36.5% of our total current assets as of December 31, 2019, 2020 and 2021, respectively.

The following table sets forth a summary of our inventory balances as of the dates indicated.

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	112,781	133,737	175,970
Finished goods	57,589	36,274	54,623
Work in progress	23,792	24,385	14,966
Goods in transit	25,247	4,370	12,660
Total	219,409	198,766	258,219

The following table sets forth the breakdown of our finished goods in terms of product categories as of the dates indicated.

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Personal student tablets	24,837	22,346	36,952
Smart classroom solutions	6,526	2,449	3,943
Wearable products	25,228	11,008	11,707
Other products	998	471	2,021
Total	57,589	36,274	54,623

Our inventories decreased from RMB219.4 million as of December 31, 2019 to RMB198.8 million as of December 31, 2020, primarily due to a remarkable decrease in goods in transit as we managed to better control our logistic arrangements, and a decrease in finished goods as we improved our production and inventory management policies which improved the turnover of our finished goods and effectively shortened the general time span from completion of production to the delivery to customers. It was partially offset by an increase in raw materials as we increased the procurement of certain key raw material in 2020, primarily due to (i) the expansion of our product offerings, including several special edition models which we expected to introduce to the market by the end of 2019, and (ii) in anticipation of future price increases of such raw materials. Our inventories increased to RMB258.2 million as of December 31, 2021 from December 31, 2020, which was a combined result of the continuous expansion of our product portfolio which increased the amount of finished goods, as well as the increased procurement of raw materials in the anticipation of rising market demand for such raw materials and our products.

The following table sets forth the aging analysis of our inventories as of December 31, 2019, 2020 and 2021 and the subsequent utilization amount as of April 30, 2022:

	Total	**Within 1 year**	**1-2 years**	**2-3 years**	**Over 3 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As of December 31, 2021					
Raw Material	175,970	150,214	19,927	4,437	1,392
Finished goods	54,623	53,970	653	–	–
Work in progress	14,966	14,966	–	–	–
Goods in transit	12,660	12,660	–	–	–
Total	258,219	231,810	20,580	4,437	1,392
Subsequent utilization amount as of April 30, 2022	131,370	126,624	4,422	318	6

	Total	**Within 1 year**	**1-2 years**	**2-3 years**	**Over 3 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As of December 31, 2020					
Raw Material	133,737	122,473	9,393	1,627	244
Finished goods	36,274	33,323	2,490	1	460
Work in progress	24,385	24,385	–	–	–
Goods in transit	4,370	4,370	–	–	–
Total	198,766	184,551	11,883	1,628	704

	Total	Within 1 year	1-2 years	2-3 years	Over 3 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As of December 31, 2019					
Raw Material	112,781	104,696	5,037	3,048	–
Finished goods	57,589	56,158	460	971	–
Work in progress	23,792	23,792	–	–	–
Goods in transit	25,247	25,247	–	–	–
Total	219,409	209,893	5,497	4,019	–

During the Track Record Period, the substantial majority of our inventories aged within one year. The raw materials aged over two years as of December 31, 2020 and December 31, 2021 were mainly because we strategically increased procurements of certain raw materials of which prices were relatively low in the relevant periods. We expect such inventories will be used up in the next 12 months.

The following table sets forth average inventory turnover days for the periods indicated.

	Year Ended December 31,		
	2019	**2020**	**2021**
Average inventory turnover days(1)	137	143	130

Note:

(1) Average inventory turnover days are based on the average balance of inventory divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the year ended December 31 is 365 days.

Inventory turnover days increased from 137 days in 2019 to 143 days in 2020, primarily due to the increase in average inventory balance in 2020 as the inventory balance by the end of 2019 significantly increased. We aim to continue to actively manage our inventory turnover days in the future. Inventory turnover days decreased to 130 days in 2021, primarily due to our continuous effort in improving inventory management.

We believe we are generally not subject to any material recoverability issue of our inventories. Most of our inventories are raw materials. During the Track Record Period, a substantial majority of raw material inventories were typically used up within one year. Since most of the raw materials can be commonly used in different device models with similar configurations, we don't expect changes in product mix within one year under our current business plans and current market condition would completely cause our current raw materials to be obsolete. We will continue to closely monitor prices of raw materials and our sales progress and make constant efforts in managing our inventories turnover.

As of April 30, 2022, RMB131.4 million, or 50.9%, of our inventories as of December 31, 2021, had been subsequently utilized or sold.

Right-of-use Assets

Our right-of-use assets amounted to RMB1.8 million, RMB1.1 million and RMB3.1 million as of December 31, 2019, 2020 and 2021, respectively. The right-of-use assets represented the carrying amount of our leased office premises during the Track Record Period pursuant to the adoption of HKFRS 16, see "– Critical Accounting Policies and Estimates – Leases" for more details.

Trade Receivables

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	17,049	23,926	48,340
Impairment	(84)	(360)	(789)
Total	16,965	23,566	47,551

During the Track Record Period, we usually required advanced payment from most of our distributors, upon or prior to delivery of our products. However, we typically granted credit terms of 30 days, or a longer period at their request but subject to our discretion, after the issue of invoice to certain of our customers that had good credit records or made relatively large purchases from us. Our trade receivables represent amounts in connection with the sales of our products due from these customers, mainly comprising open accounts with a credit term of 30 days. We assess the credit worthiness of our customers through inquiries into their credit profiles and reputation in the industry and by collection and reviewing materials regarding their operating history, sales performance, relationship history with us, past credit problems and financial conditions. We limit the amounts of these credits available to customers and regularly review the credit terms we grant to them.

Trade receivables increased from RMB17.0 million as of December 31, 2019 to RMB23.6 million as of December 31, 2020 which further increased to RMB47.6 million as of December 31, 2021, primarily because we granted an extended credit term to certain distributors. Among the distributors which had outstanding trade receivables as of December 31, 2021, there were 13 distributors to which we granted extended credit terms. All of these distributors were initially granted a credit term of 30 days from their purchase. These distributors experienced temporary financial pressure mainly caused by factors beyond their control, including the intensified pandemic control restrictions since the fourth quarter of 2021 and the long settlement period for funds from sales that are transferred by shopping centers where their stores operate in. As a result, these distributors applied for, and we approved on a case-by-case basis, an extended credit term mainly due to the following one or more reasons, (i) newly contracted distributors needed additional startup period for capital turnover, (ii) distributors that are located in strategic regions where we intended to enhance market penetration expected to increase purchases to expand their operations, (iii) distributors mainly engaging in the sales and marketing of our smart classroom solutions were generally subject to greater capital needs due to the higher purchase amount on average, (iv) distributors involved in online distribution were subject to longer settlement cycle subject to the e-commerce platforms they operate on. We expect extending the credit terms would provide a reasonably prolonged period for these distributors to get familiar with the business operations and improve their financial stability, which is also in line with our own interest. Subject to their respective historical purchase amounts and credibility and on a case-by-case review basis, we offered an extended credit term ending on June 30, 2022 up to June 30, 2024. Amount of sales to each of such distributors in the year ended December 31, 2021 ranged from RMB0.2 million to RMB28.0 million, with the aggregate amount of sales reached RMB75.0 million. Trade receivables due from each of such distributors as of December 31, 2021 ranged from RMB0.2 million to RMB7.1 million, with the aggregate trade receivables amounted to RMB32.5 million, representing approximately 68.3% of total trade receivables as of the same date. As of April 30, 2022, approximately 32.9% of the trade receivables from these 13 distributors as of December 31, 2021 has been settled. By comparing the collection progress of trade receivables from these distributors with other distributors, the collection pattern of themselves in the past, the sales progress of these distributors for the inventories ordered in 2021, the past sales amounts contributed by these distributors, their relationship history with us, we consider these distributors are financially sound as of the Latest Practicable Date. All of the 13 distributors are independent third parties from us. We have maintained good business relationships with these distributors and there is no disputes or legal proceedings with them. To ensure the collection of trade receivables from these 13 distributors, we continuously monitor their operational performance and credit worthiness through measures including (i) requiring and reviewing inventories level and sale progress data from such distributors on a monthly basis, (ii) monitoring the overall number of stores in operation managed by such distributors through internal system, (iii) evaluating sales progress of such distributors based on monthly on-site visits to their stores conducted by our marketing team, (iv) requiring written confirmation on the outstanding amount of balance of trade receivables from such distributors on a monthly basis to assess their willingness to pay and (v) assessing the credit worthiness of such distributors based on litigation and default status search gathered by our internal legal team through publicly available information. Based on the information collected through these measures during the Track Record Period and up to the Latest Practicable Date, we believe there was no material operational difficulties encountered by these 13 distributors. Based on the facts that (i) the amount of sales to and trade receivables from these distributors, individually and collectively, were not significant, (ii) other than the extended credit term mentioned above, the collection of trade receivables from such distributors has been normalized, (iii) the trade receivables from these distributors were all settled within the credit terms granted by us during the Track Record Period, and (iv) 32.9% of the trade receivables from these 13 distributors as of December 31, 2021 has been settled as of April 30, 2021, and our assessment on the operation performance, willingness to pay and credit worthiness of these 13 distributors mentioned above, we believe we do not expect to experience material difficulties in collecting the remaining amounts from these distributors. In addition, during the Track Record Period, none of our customers settled their trade receivables due to us through third parties.

The following table sets forth certain information of our distributors which had been granted extended credit terms up to June 30, 2024 and had outstanding trade receivables as of December 31, 2021:

Distributors	Background	Registered Capital[(1)]	Length of relationship with us	Sales Amount in the Year ended December 31, 2021	Trade Receivables as of December 31, 2021	Outstanding Amount as of April 30, 2022	Credit Term Ending Date
				(RMB'000)	*(RMB'000)*	*(RMB'000)*	
Company G	A private company founded in December 2020 located in Zhejiang Province, specializing in the distribution of electronic products and the provision of related services	RMB1.0 million	since 2021	2,084	1,660	1,324	June 30, 2024
Company H	A private company founded in April 2021 located in Sichuan Province, specializing in the distribution of electronic products and the provision of related services	RMB1.0 million	since 2021	575	535	271	June 30, 2024
Company I	A private company founded in November 2020 located in Liaoning Province, specializing in the distribution of electronic products and the provision of related services	RMB1.0 million	since 2021	1,159	364	9	June 30, 2024
Company J	A private company founder in June 2021 located in Sichuan Province, specializing in the distribution of electronic products and the provision of related services	RMB1.0 million	since 2021	192	223	65	June 30, 2024
Total				4,010	2,782	1,669	

Note:

(1) Based on publicly available information.

The following table sets forth our trade receivables turnover days for the periods indicated.

	Year Ended December 31,		
	2019	**2020**	**2021**
Trade receivables turnover days[(1)]	18	10	16

Note:

(1) Trade receivables turnover days are based on the average balance of trade receivables divided by revenue for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the year ended December 31 is 365 days.

Our trade receivables turnover days decreased from 18 days in 2019 to 10 days in 2020, primarily due to our decreasing average balance of trade receivables which indicated our constant efforts in improving our receivable collection practice. Trade receivables turnover days increased to 16 days in the 2021, primarily because we granted an extended credit term to certain distributors.

The following table sets forth the aging analysis, based on invoice date, of our trade receivables as of the dates indicated.

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	8,182	11,558	19,552
31 to 180 days	8,313	11,290	27,125
181 to 365 days	470	718	874
Total	16,965	23,566	47,551

The increase in trade receivables aging from 31 to 180 days from RMB11.3 million as of December 31, 2020 to RMB27.1 million as of December 31, 2021 was primarily due to the longer payment collection cycle as a result of the extended credit terms mentioned above.

The following tables set forth the aging analysis of our trade receivables as of December 31, 2019, 2020 and 2021 and the corresponding subsequent settlement amount as of April 30, 2022:

	As of December 31, 2019	Subsequent settlement as of April 30, 2022
	RMB'000	*RMB'000*
Within 30 days	8,182	8,182
31 to 180 days	8,313	8,313
181 to 365 days	470	470
Total	16,965	16,965

	As of December 31, 2020	Subsequent settlement as of April 30, 2022
	RMB'000	*RMB'000*
Within 30 days	11,558	11,558
31 to 180 days	11,290	11,066
181 to 365 days	718	718
Total	23,566	23,342

	As of December 31, 2021	Subsequent settlement as of April 30, 2022
	RMB'000	*RMB'000*
Within 30 days	19,552	12,530
31 to 180 days	27,125	11,780
181 to 365 days	874	874
Total	47,551	25,184

During the Track Record Period, we adopted a general and simplified approach in providing for expected credit losses and determining impairment against our trade receivables. During the Track Record Period, we made general impairment in respect of the outstanding trade receivables in the amount of RMB84 thousand, RMB0.4 million and RMB0.8 million as of December 31, 2019, 2020 and 2021, respectively.

As of April 30, 2022, RMB25.2 million, or 53.0%, of our trade receivables as of December 31, 2021, had been settled. We believe that there is no recoverability issue for our trade receivables, as our customers generally have maintained good track record with us and have high credibility and we mainly grant credit terms to high quality customers. In addition, we closely monitor and make constant efforts in the collection of trade receivables and make sufficient provisions accordingly. Based on the operational and financial information we periodically collected from our distributors, such as inventories level and sale progress and number of stores in operation, and our assessment on the operational performance, willingness to pay and credit worthiness of our distributor through on-site visits, public search and daily communications, we believe there was no material operational difficulties encountered by our distributors the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, our trade receivables were not subject to any disputes or legal proceedings.

Prepayments, Other Receivables and Other Assets

The following table sets out the breakdown of our prepayments, other receivables and other assets as of the dates indicated.

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Current portion			
Prepayments	13,018	34,194	9,631
Deposits and other receivables	8,362	12,359	34,409
Prepaid [**REDACTED**]	–	–	[**REDACTED**]
Long-term receivables within one year	–	941	921
Net investment in a lease – current	–	716	610
	21,380	48,210	[**REDACTED**]
Non-current portion			
Prepaid advertisement fee	3,867	227	–
Long-term receivables	–	1,420	535
Net investment in a lease	–	1,863	1,318
	3,867	3,510	1,853

Prepayments mainly related to the payments made to certain of our raw material suppliers pursuant to the procurement agreements. It increased from RMB13.0 million as of December 31, 2019 to RMB34.2 million as of December 31, 2020, mainly because we strategically increased the procurement of certain key materials, such as integrated circuits and liquid-crystal display screens, in order to secure a stable supply, especially considering that we experienced a temporary shortage of certain key raw materials in early 2020. Prepayments decreased to RMB9.6 million as of December 31, 2021, primarily because comparing with previous years, we increased procurement of raw materials in the third quarter of 2021 given the shortage in supply. As such, procurements decreased in the fourth quarter and the balance of prepayments declined as of December 31, 2021.

Deposits and other receivables mainly referred to deductible tax credits, interest receivables on bank deposits, and the deposits we paid to the e-commerce platforms pursuant to the arrangements for the operation of our self-operated online channels. The continuous increases in deposits and other receivables were mainly due to the increase in various deductible tax credits we were entitled to and the increase in interest receivables on bank deposits. The significant higher balance as of December 31, 2021 was also attributable to a larger amount of deductible tax credits recorded at the year end resulting from invoices of procurements which had not completed relevant administrative procedure for tax deduction.

Prepaid advertisement fee primarily related to the payments in connection with the advertisements we placed with different media channels to market our products and brand. The higher prepaid advertisement fee recorded in 2019 primarily related to the prepayments in connection with the appointment of our brand ambassador we contracted in 2019.

Long-term receivables mainly represented the present value of uncollected payments from a third party to whom we licensed one of our trademarks in the aggregate licensing fee of RMB3.0 million. Under the arrangement, the third party would pay us in six installments pursuant to the schedule detailed in the arrangement. Long-term receivables within one year referred to the unsettled current portion of receivables due from the trademark licensing income.

Net investment in a lease mainly represented the present value of uncollected payments from a customer who purchased smart classroom solutions with a total of 800 units of smart educational devices from us in 2020. Subject to the arrangement with the customer, the customer would settle the payments in ten installments from mid-2020 to late 2024, with two installments in each year immediately after the commencement of spring and fall semesters, respectively.

Trade and Bills Payables

Trade and bills payables mainly include payables to various third-party suppliers. The credit period for our trade and bills payables generally range from 30 to 90 days. Our trade and bills payables increased from RMB85.1 million as of December 31, 2019 to RMB97.2 million as of December 31, 2020. The increase was in line with our increased raw material procurement resulting from our stable business growth. As of December 31, 2021, trade and bills payables amounted to RMB68.3 million. The decrease was primarily because we increased procurement of raw materials in the third quarter of 2021 given the shortage in supply. As such, procurements decreased in the fourth quarter and the trade payables declined as of December 31, 2021.

The following table sets forth our trade and bills payables turnover days for the periods indicated.

	Year Ended December 31,		
	2019	**2020**	**2021**
Trade and bills payables turnover days[1]	54	63	47

Note:

(1) Trade and bills payables turnover days are based on the average balance of trade and bills payables divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the year ended December 31 is 365 days.

Our trade and bills payables turnover days increased from 54 days in 2019 to 63 days in 2020, primarily due to the increase in trade and bills payables resulting from increasing raw material procurements. Trade and bills payables turnover days decreased to 47 days in 2021, primarily due to the shortened payment cycle we agreed with relevant suppliers to secure the supply of certain raw materials.

The following table sets forth the aging analysis, based on invoice date, of our trade and bills payables as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	84,723	91,214	56,849
91 – 180 days	378	5,753	11,344
181 – 365 days	–	239	106
Total	85,101	97,206	68,299

As of April 30, 2022, RMB59.5 million, or 87.2%, of our trade payables as of December 31, 2021, had been settled.

Other Payables and Accruals and Contract Liabilities

The following table sets out the breakdown of other payables and accruals and contract liabilities as of the dates indicated.

	As of December 31,		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities (current)	97,243	118,530	119,243
Payables for salary and welfare	25,633	22,201	20,385
Payables for services	5,071	1,661	4,242
Accruals for sales rebates	3,221	1,453	1,536
Other tax payables	4,377	35,792	36,202
Product warranty provision	7,389	7,241	8,019
Payable for [**REDACTED**]	–	–	[**REDACTED**]
Others	2,485	3,647	3,996
Other payables and accruals	145,419	190,525	197,748

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities (non-current)	31,158	37,728	39,720

We consider the value of our personal student tablets and the smart classroom solutions, represent the aggregate value of the hardware devices together with the digital educational resources and services. As such, revenue derived from devices is recognized at the point in time when control of the devices is transferred to the customers. Revenue from digital educational resources and services is recognized on straight-line basis over the estimated user life. Payable for contract liabilities represents the current portion of the revenue to be recognized primarily in connection with the digital educational resources and services. To a lesser extent, it also included the prepayments from customers who purchased our products which had not been delivered. Payable for contract liabilities continued to increase during the Track Record Period, which was in line with the increase in our sales of personal student tablets and the smart classroom solutions.

The following table sets of the breakdown of our revenue-related contract liabilities for the periods indicated.

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Amounts expected to be recognized as revenue:			
Within one year	97,243	118,530	119,243
After one year	31,158	37,728	39,720
Total	128,401	156,258	158,963

Payable for salary and welfare slightly decreased from RMB25.6 million as of December 31, 2019 to RMB22.2 million as of December 31, 2020, mainly due to the reduction and exemption of social insurance premiums of certain subsidiaries granted by local governments. Payable for salary and welfare decreased to RMB20.4 million as of December 31, 2021, primarily due to a general decrease in compensation and bonuses for our employees, we adopted a more prudent approach in determining and distributing the performance-based compensation during the COVID-19 pandemic.

As of April 30, 2022, RMB51.3 million, or 32.3%, of our contract liabilities as of December 31, 2021, had been settled.

Payable for services mainly related to the service fees paid to our customs clearance agencies in connection with raw material procurement. It decreased in 2020 because we reviewed our procurement practice and directly transacted with the domestic suppliers instead for relevant raw materials. Payable for services increased to RMB4.2 million as of December 31, 2021, primarily due to the increasing consulting services, technical services and other services we purchased from various third parties to support our research and development and other business operation activities.

During the Track Record Period, we provided a sales discount/rebate to certain offline and online distributors, subject to their sales performance. As of December 31, 2019, 2020 and 2021, the accruals for sales rebates amounted to RMB3.2 million, RMB1.5 million and RMB1.5 million, respectively.

We provided one-year warranties to the end users of personal student tablets for general repairs of defects occurring during the warranty period. The amount of the warranty provision is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Payable for [**REDACTED**] represents the [**REDACTED**] we contracted but yet settled in connection with this [**REDACTED**].

INDEBTEDNESS

Borrowings

The following table sets forth the details of our borrowings as of the dates indicated.

	As of December 31,			As of April 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Current				
Bank loans – secured	10,000	–	–	–
Non-current				
Financial liabilities at fair value through profit or loss	–	–	120,365	120,365

Our short-term bank borrowings were denominated in Renminbi and carried a floating interest rate ranging from 4.79% to 5.00% per annum. Such borrowings were secured by the pledge of deposits by Mr. Qin and were used to finance our daily operations. Our borrowings contain standard terms, conditions and covenants that are customary for commercial bank loans. Our Directors confirm that we had neither material defaults in payment of bank borrowings, nor any breach of financial covenants during the Track Record Period.

We had fully repaid the borrowings by the Latest Practicable Date. In addition, as of April 30, 2022, we had unutilized banking facilities of approximately RMB50.0 million. Our approved unutilized credit facilities are covered by legally binding and enforceable loan agreements which we have entered into with the banks and other financial institutions. Our Directors have confirmed that, other than the [**REDACTED**], we do not currently have any concrete and material external financing plans outside our ordinary course of business. We do not anticipate any changes to the availability of bank financing to finance our operations in the future, although there is no assurance that we will be able to access bank financing on favorable terms or at all.

As of December 31, 2021 and April 30, 2022, we had financial liabilities at fair value through profit or loss of RMB120.4 million, which was related to the issue of an aggregate of 67,288 shares to three [**REDACTED**] Investors at a total consideration of US$22.7 million (equivalent to RMB147.0 million). See "– Description of Certain Major Components of Our Consolidated Statement of Comprehensive Income – Changes in Fair Value of Financial Liabilities at Fair Value Through Profit or Loss" for more details.

Lease Liabilities

We recognize lease liabilities to make lease payments for the right-of-use assets representing the right to use the underlying assets for all leases except for short-term leases and leases of low-value assets. As of December 31, 2019, 2020 and 2021, we, as a lessee, had outstanding current lease liabilities of RMB0.6 million, RMB0.8 million and RMB1.3 million, respectively. As of the same dates, the outstanding non-current lease liabilities amounted to RMB1.2 million, RMB0.6 million and RMB1.9 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Source of Liquidity

We have financed our working capital, capital expenditure and other capital requirements primarily through cash generated from operations, bank loans and capital injections from Shareholders. After this [**REDACTED**], we intend to finance our future capital requirements through same sources of funds, together with the [**REDACTED**] to be received from this [**REDACTED**].

As of December 31, 2019, 2020 and 2021, we had cash and cash equivalents of RMB133.4 million, RMB253.3 million and RMB333.3 million, respectively, which primarily consisted of cash at bank and on hand.

Sufficiency of Working Capital

Taking into account our current business development plans, our expected cash generated from operating activities, the financial resources available to us, including cash and cash equivalents, our available banking facilities, together with the estimated [**REDACTED**] from the [**REDACTED**], our Directors are of the opinion that we will have available sufficient working capital for our present requirements, that is for at least the 12 months following the date of this document.

Net Current Assets

As of December 31, 2019, 2020 and 2021, we recorded net current assets of RMB142.9 million, RMB99.7 million and RMB315.3 million, respectively.

The table below sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31,			As of April 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*
Current Assets				
Inventories	219,409	198,766	258,219	268,353
Trade receivables	16,965	23,566	47,551	66,047
Prepayments, other receivables and other assets	21,380	48,210	48,155	57,730
Time Deposit	–	–	20,000	20,000
Cash and cash equivalents	133,366	253,318	333,340	263,177
Total current assets	391,120	523,860	707,265	675,307
Current Liabilities				
Trade and bills payables	85,101	97,206	68,299	81,277
Other payables, accruals and contract liabilities	145,419	190,525	197,748	178,105
Interest-bearing bank borrowings	10,000	–	–	–
Lease liabilities	642	773	1,318	1,876
Amounts due to shareholders	–	128,000	117,561	117,561
Tax payable	7,094	7,637	7,018	2,913
Total current liabilities	248,256	424,141	391,944	381,732
Net Current Assets	142,864	99,719	315,321	293,575

Our net current assets decreased from RMB142.9 million as of December 31, 2019 to RMB99.7 million as of December 31, 2020, primarily due to (i) the amounts due to shareholders in connection with the dividends declared in November 2020, and (ii) an increase in other payables and accruals primarily due to the increased payable for contract liabilities and the withholding individual income tax relating to the dividends we declared in 2020, partially offset by (i) an increase in cash and cash equivalent resulting from our operations and Shareholders' capital injections, and (ii) an increase in prepayments mainly because we strategically increased the procurement of certain key materials.

Our net current assets increased from RMB99.7 million as of December 31, 2020 to RMB315.3 million as of December 31, 2021, primarily due to an increase of RMB80.0 million in cash and cash equivalents as well as an increase of RMB59.5 million in inventories.

Net current assets decreased to RMB293.6 million as of April 30, 2022, primarily due to a decrease in cash and cash equivalents and inventories.

Cash Flows Analysis

The following table sets forth our cash flows for the periods indicated.

	Year Ended December 31,		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Operating cash flows before movements in working capital	88,160	104,632	59,313
Movements in working capital	4,152	23,743	(102,186)
Interest received	1,096	3,167	3,335
Income tax paid	(3,317)	(13,602)	(916)
Sub-total: Net cash flows generated from/(used in) operating activities	90,091	117,940	(40,454)
Net cash flows used in investing activities	(29,104)	(4,454)	(11,432)
Net cash flows generated from financing activities	3,442	6,466	133,722
Net increase in cash and cash equivalents	64,429	119,952	81,836
Cash and cash equivalents at the beginning of the year	68,937	133,366	253,318
Effect of foreign exchange rate changes, net	–	–	(1,814)
Cash and cash equivalents at the end of the year	133,366	253,318	333,340

Net Cash Flows Generated from/(Used in) Operating Activities

Our primary source of cash generated from operating activities is proceeds we receive from the sales of our products. Our primary uses of cash in operating activities are amounts that we pay for raw material procurement.

Although we recorded net cash used in operating activities in the year ended December 31, 2021, we believe that it is temporary and we are able to improve our cash flow during the ordinary course of business in the subsequent period, given that the [**REDACTED**] are in connection with this [**REDACTED**] and that our raw material procurement is expected become normalized to previous level.

For the year ended December 31, 2021, despite the operating cash inflow before movements in working capital of RMB59.3 million, which mainly resulted from profit before tax of RMB72.0 million, partially offset by changes in fair value of financial liabilities at fair value through profit or loss, we recorded net cash flow used in operating activities of RMB40.5 million. Our movement in working capital primarily reflected (i) an increase of RMB60.6 million in inventories as we increased raw material procurement in the anticipation of the rising market demand for such raw material and our products, (ii) a decrease of RMB28.9 million in trade and bills payables, and (iii) an increase of RMB24.4 million in trade receivables.

For the year ended December 31, 2020, our net cash generated from operating activities was RMB117.9 million, which was the result of our profit before tax of RMB102.8 million, adjusting of certain non-cash and non-operating items, movements in working capital, and income tax paid of RMB13.6 million. Our movements in working capital primarily reflected (i) an increase in contract liabilities of RMB27.9 million as our sales continued to increase, and (ii) a decrease in inventories of RMB25.3 million, partially offset by an increase in prepayments, other receivables and other assets of RMB26.8 million mainly because we strategically increased the procurement of certain key materials in order to secure a stable supply.

For the year ended December 31, 2019, our net cash generated from operating activities was RMB90.1 million, which was the result of our profit before tax of RMB75.9 million, adjusting of certain non-cash and non-operating items, movements in working capital, and income tax paid of RMB3.3 million. Our movements in working capital primarily reflected (i) an increase in trade payables of RMB24.9 million mainly resulting from our increased raw material procurement, (ii) a decrease in trade receivables of RMB30.9 million primarily due to a decrease in orders for our wearable products from one of our customers, and (iii) an increase in contract liabilities of RMB32.3 million as our sales continued to increase, partially offset by an increase in inventories of RMB71.3 million.

Net Cash Flows Used in Investing Activities

For the year ended December 31, 2021, our net cash flow used in investment activities amounted to RMB11.4 million, primarily consisted of proceeds from (i) additions of intangible assets of RMB11.6 million primarily in connection with our copyrights, (ii) purchases of property, plant and equipment of RMB3.0 million, and (iii) investment income from structured deposit of RMB2.3 million.

For the year ended December 31, 2020, our net cash flows used in investment activities amounted to RMB4.5 million, consisted of (i) additions of intangible assets of RMB3.1 million primarily in connection with our copyrights, (ii) purchases of property, plant and equipment of RMB2.6 million mainly in connection with the continuous upgrades for our production and assembly facility, and (iii) investment income from structured deposit of RMB1.2 million.

For the year ended December 31, 2019, our net cash flows used in investment activities amounted to RMB29.1 million, consisted of (i) additions of intangible assets of RMB6.6 million primarily in connection with our copyrights, (ii) purchases of property, plant and equipment of RMB3.6 million mainly in connection with the continuous upgrades for our production and assembly facility as well as the electronic equipment for our research and development activities, and (iii) increase in time deposit of RMB20.0 million.

Net Cash Flows Generated from Financing Activities

For the year ended December 31, 2021, net cash flows from financing activities amounted to RMB133.7 million, primarily consisted of (i) [**REDACTED**] from [**REDACTED**] Investors in connection with the issue of redeemable shares in March 2021 of RMB147.0 million, partially offset by the consideration paid to our shareholders during the Reorganization of RMB10.4 million.

For the year ended December 31, 2020, net cash flows from financing activities amounted to RMB6.5 million, primarily consisted of capital injection from our shareholders of RMB17.3 million, partially offset by the repayment of bank loans in the amount of RMB10.0 million.

For the year ended December 31, 2019, net cash flows from financing activities amounted to RMB3.4 million, primarily consisted of (i) capital injection from our shareholders of RMB41.5 million, and (ii) the receipt of bank loans of RMB10.0 million, partially offset by (i) the repayment of bank loans in the amount of RMB30.0 million, and (ii) a decrease in amounts due to a shareholder of RMB16.6 million in connection with the repayments to Mr. Qin.

Capital Expenditures

Our capital expenditures during the Track Record Period primarily represented expenditures incurred in relation to purchase of property, plant and equipment, additions of other intangible assets and new leases. For the years ended December 31, 2019, 2020 and 2021, we incurred capital expenditures of RMB11.3 million, RMB5.6 million and RMB17.5 million, respectively. Our Directors estimate that the additional capital expenditures for the years ending December 31, 2022 will be approximately RMB16.9 million. Such estimate represents the total capital expenditures that we expect to incur in the relevant period based on our existing business plans. We may adjust our business plans from time to time and the estimated total capital expenditures may also change.

Contingent Liabilities

As of December 31, 2019, 2020 and 2021, we did not have any significant contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened.

RELATED PARTY TRANSACTIONS

We entered into a lease agreement with Zhuhai Dreamcatcher in 2017 for a term of eight years to lease a property located in Zhuhai city from it for our office use. The monthly lease payable was determined on a basis mutually agreed with reference to the prevailing market rent of similar properties located at the surrounding area available to independent third parties. Total lease expense paid by us amounted to RMB0.1 million, RMB0.1 million and RMB0.3 million, respectively, in 2019, 2020 and 2021.

Prior to the Track Record Period, we obtained borrowings from Mr. Qin, mainly for the purchases of properties for the purposes of our research and development, production and administration, and cash advances from him for our daily operations. With respect to the outstanding amounts due to him prior to the Track Record Period, we agreed to pay interests at a rate of 4.35%, which was a rate benchmarked against the prime lending rate for short term loans as published by the PBOC, to Mr. Qin. Subsequently, in 2018 and 2019, Mr. Qin executed waivers to exempt us from interest payments in the total amount of RMB2.6 million and RMB28.0 thousand in 2018 and 2019, respectively. We made repayments to Mr. Qin in the amount of RMB43.0 million and RMB16.6 million in 2018 and 2019, respectively. There had been no outstanding amount due from us to Mr. Qin as of December 31, 2020.

During the Track Record Period, we had short-term bank borrowings for our daily operations purpose. As of December 31, 2019, 2020 and 2021, total outstanding amount was RMB10.0 million, nil and nil, respectively. Such borrowings were secured by the pledge of deposits by Mr. Qin and the pledge was fully settled in 2020 upon the full settlement of the bank borrowings.

Other than the above, there were amounts due to a related party and shareholders of nil, RMB128.0 million and RMB117.6 million as of December 31, 2019, 2020 and 2021, respectively. Such amounts were in connection with the dividends we declared in November 2020 and were non-trade in nature. Our Directors confirm that all the non-trade amounts due to/from related parties will be settled prior to the [**REDACTED**].

The related party transactions during the Track Record Period are as set forth in Note 33 to the Accountants' Report in Appendix I.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of December 31, 2021, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios for the period or as of the dates indicated.

	For the Year Ended/As of December 31,		
	2019	**2020**	**2021**
Current ratio (times)(1)	1.6	1.2	1.8
Quick ratio (times)(2)	0.7	0.8	1.1
Return on assets (%)(3)	13.6	14.4	10.1
Return on equity (%)(4)	30.4	51.8	31.7

Notes:

(1) Current assets divided by current liabilities at the end of year.

(2) Current assets less inventories and divided by current liabilities at the end of year.

(3) Net profit for the year divided by total assets at the end of the year and multiplied by 100%.

(4) Net profit for the year divided by total equity at the end of the year and multiplied by 100%.

Current Ratio

Our current ratio was 1.6, 1.2 and 1.8, respectively, as of December 31, 2019, 2020 and 2021. The relatively higher current ration as of December 31, 2019 as compared to December 31, 2020 was primarily due to the rapid increase in current assets resulting from an increase in cash and cash equivalent and an increase in inventories, which outpaced the increase of current liabilities. Current ratio increased to 1.8 as of December 31, 2021, primarily due to an increase in cash and cash equivalent mainly resulting from the [**REDACTED**] received from our [**REDACTED**] Investors, as well as an increase in inventories.

Quick Ratio

Our quick ratio remained relatively stable at 0.7 and 0.8, respectively, as of December 31, 2019 and 2020. Quick ratio increased to 1.1 as of December 31, 2021, primarily due to an increase in cash and cash equivalent mainly resulting from the [**REDACTED**] received from our [**REDACTED**] Investors.

Return on Assets

Return on assets remained relatively stable at 13.6% and 14.4% in 2019 and 2020, respectively. Return on assets decreased to 10.1% in 2021, primarily due to an increase in total asset resulting from the [**REDACTED**] investment, and a decrease in net profit.

Return on Equity

Return on equity increased from 30.4% in 2019 to 51.8% in 2020, primarily due to an increase in net profit and a decrease in equity attributable to the dividend declared in 2020. Return on equity decreased to 31.7% in 2021, primarily due to a decrease in net profit.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

We are, in the ordinary course of our business, exposed to various market risks, including interest rate risk, credit risk and liquidity risk. Our capital risk management strategy aims to safeguard our ability to continue as a going concern in order to provide returns for our shareholders and to maintain an optimal capital structure to reduce the cost of capital.

Interest Rate Risk

Our exposure to the risk of changes in market interest rates relates primarily to our bank loans with floating interest rates. We have not used any interest rate swaps to hedge our exposure to interest rate risk.

The sensitivity analysis below has been determined based on the exposure to interest rates for our variable rate bank loans and bank balances at the end of each of the relevant periods during the Track Record Period and we assumed that the amount outstanding at the end of each of the relevant periods was outstanding for the whole year. A 50 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the following table demonstrates the sensitivity at the end of the relevant period to a reasonably possible change in the Renminbi with all the variable held constant of our profit before tax. This is mainly attributable to our exposure to interest rates on its bank loans with variable rates.

	Increase/ (decrease) in basic points	Increase/ (decrease) in profit before tax
		RMB'000
2019 (RMB)	50	(9)

Credit Risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligation. We have no concentration of credit risk from third party debtors. Our maximum exposure to credit risk is the carrying amounts of cash and cash equivalents, restricted bank deposits, trade receivables, financial assets included in prepayments, other receivables and other assets and other non-current assets.

Cash and cash equivalents

As of December 31, 2019 and 2020 and 2021, substantially all of the bank deposits were deposited with major financial institutions incorporated in the PRC, which management believes are of high credit quality without significant credit risk. The expected credit loss is close to zero.

Financial assets included in prepayments, other receivables and other assets and other non-current assets

We consider the probability of default upon initial recognition of assets and whether there has been a significant increase in credit risk on an ongoing basis throughout the Track Record Period. To assess whether there is a significant increase in credit risk, we compare the risk of a default occurring on the asset as of the reporting date with the risk of default as of the date of initial recognition. We consider available reasonable and supportive forward-looking information.

Maximum exposure

The table below shows the credit quality and the maximum exposure to credit risk based on our credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and period-end staging classification as of December 31, 2019 and 2020 and 2021. The amounts presented are gross carrying amounts for financial assets.

	As of December 31, 2019				
	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	–	–	–	17,049	17,049
Financial assets included in prepayments, other receivables and other assets	1,286	–	–	–	1,286
Cash and cash equivalents – Not yet past due	133,366	–	–	–	133,366
Time deposit – Not yet past due	20,000	–	–	–	20,000
	154,652	–	–	17,049	171,701

	As of December 31, 2020				
	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	–	–	–	23,926	23,926
Financial assets included in prepayments, other receivables and other assets	4,450	–	–	–	4,450
Cash and cash equivalents – Not yet past due	253,318	–	–	–	253,318
Time deposit – Not yet past due	20,000	–	–	–	20,000
Other non-current assets – Not yet past due	3,283	–	–	–	3,283
	281,051	–	–	23,926	304,977

	As of December 31, 2021				
	12-month ECLs	**Lifetime ECLs**			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	–	–	–	48,340	48,340
Financial assets included in prepayments, other receivables and other assets	7,203	–	–	–	7,203
Cash and cash equivalents					
– Not yet past due	333,340	–	–	–	333,340
Time deposit					
– Not yet past due	20,000	–	–	–	20,000
Other non-current assets					
– Not yet past due	1,853	–	–	–	1,853
	362,396	–	–	48,340	410,736

* The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful."

Liquidity Risk

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations. Our objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operation and interest-bearing bank borrowings.

We regularly review our major funding positions to ensure that we have adequate financial resources in meeting its financial obligations. The maturity profile of our financial liabilities at the end of each of the period during the track Record Period, based on contractual undiscounted payments, was as follows:

	As of December 31, 2019				
	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	85,101	–	–	85,101
Financial liabilities included in other payables and accruals	–	18,166	–	–	18,166
Interest-bearing bank borrowings and interest accruals	–	11,157	–	–	11,157
Lease liabilities	–	713	1,331	–	2,044
	–	115,137	1,331	–	116,468

	As of December 31, 2020				
	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	97,206	–	–	97,206
Financial liabilities included in other payables and accruals	–	14,002	–	–	14,002
Lease liabilities	–	814	612	–	1,426
Amounts due to a shareholder	–	128,000	–	–	128,000
	–	240,022	612	–	240,634

	As of December 31, 2021				
	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	68,299	–	–	68,299
Financial liabilities included in other payables and accruals	–	21,918	–	–	21,918
Financial liabilities at fair value through profit or loss	–	–	179,715	–	179,715
Lease liabilities	–	1,452	2,025	–	3,477
Amounts due to shareholders	–	117,561	–	–	117,561
	–	209,230	181,740	–	390,970

Capital Management

The primary objectives of our capital management are to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support our business and maximize shareholders' value.

We manage our capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, we may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. We are not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

We monitor capital using a debt-to-asset ratio which is total liabilities divided by total assets. The debt-to-asset ratios as of the end of each of the period during the Track Record Period were as follows:

	As of December 31,		
	2019	2020	2021
	MB'000	*RMB'000*	*RMB'000*
Total liabilities	280,648	462,425	553,964
Total assets	509,112	640,212	812,902
Debt-to-asset ratios	55%	72%	68%

Capital Management

The primary objectives of our capital management are to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support our business and maximize our shareholder's value. We manage our capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, we may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

DISTRIBUTABLE RESERVES

Under PRC laws, distributable reserves consist of net profit calculated according to PRC accounting principles, which, in many aspects, differs from the generally accepted accounting principles in other jurisdictions, including HKFRS. In addition, PRC laws and regulations also require a PRC-incorporated enterprise to set aside at least 10% of its after-tax profits calculated based on PRC accounting standards each year, if any, to fund certain statutory reserves, which may not be distributed as cash dividends (when the statutory reserve reaches and is maintained at or above 50% of their registered capital, no further allocations to this statutory reserve will be required). These statutory reserves are not available for distribution as cash dividends.

As of December 31, 2021, our reserves available for distribution to the Shareholders were RMB258.9 million.

SENSITIVITY ANALYSIS OF HISTORICAL RESULTS

For illustrative purposes only, the following sensitivity analysis illustrates the impact of a decrease/an increase of 5%, 10% and 15% in our raw material costs, with all other factors being held constant, and the hypothetical changes in our gross profit as a result of such decreases/increases for each of the periods indicated, as follows:

	Decrease/Increase by 5%	Decrease/Increase by 10%	Decrease/Increase by 15%
Change in gross profit (RMB'000)			
Year ended December 31, 2019	21,471	42,942	64,413
Year ended December 31, 2020	22,970	45,940	68,910
Year ended December 31, 2021	28,242	56,484	84,726

DIVIDENDS

Our PRC subsidiaries declared dividends of RMB160.0 million to our Shareholders in November 2020. We expect to use our cash at hand from operations to settle the remaining dividend distributions prior to the [**REDACTED**].

We may distribute dividends by way of cash, stock or other means that we consider appropriate. We may from time to time reevaluate our dividend policy in the future and the amount of dividends to be distributed to our Shareholders, if any, will depend upon our earnings, financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our Shareholders. Subject to the Companies Act and other applicable laws and regulations and our future investment plans, including but not limited to any material investment or acquisition, after the [**REDACTED**], our Board intends to recommend at the relevant shareholders meetings an annual dividend of no less than 20% of our profits available for distribution generated in each financial year. A decision to declare and pay any dividends would require the approval of the Shareholders' meeting. In addition, the declaration and/or payment of dividends may be limited by legal restrictions and/or by contracts or agreements that we may enter into in the future.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits may not be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set forth in any plan to our Board or at all. Furthermore, distributions from our subsidiaries may be restricted if they incur debts or losses or as a result of any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

As of December 31, 2019, 2020 and 2021, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of our subsidiaries established in China. In the opinion of the Directors, our earnings will be retained in China for the expansion of our operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. As of December 31, 2019, 2020 and 2021, the aggregate amounts of temporary differences associated with the unremitted earnings of subsidiaries in the PRC for which deferred tax liabilities have not been recognized were approximately RMB99.5 million, RMB22.0 million and RMB81.8 million, respectively.

[REDACTED] INCURRED AND TO BE INCURRED

We expect to incur [**REDACTED**] of approximately RMB[**REDACTED**], accounting for approximately [**REDACTED**]% of total [**REDACTED**] from the [**REDACTED**], including [**REDACTED**]-related expenses of approximately RMB[**REDACTED**] and non-[**REDACTED**] related expenses of approximately RMB[**REDACTED**], which consist of fees and expenses of legal advisors and accountants of approximately RMB[**REDACTED**] and other fees and expenses of approximately RMB[**REDACTED**], assuming the [**REDACTED**] is not exercised and based on an [**REDACTED**] of HK$[**REDACTED**] (being the [**REDACTED**] of our [**REDACTED**] range of HK$[**REDACTED**] to HK$[**REDACTED**] per [**REDACTED**]). During the Track Record Period, we incurred RMB[**REDACTED**] as [**REDACTED**], of which approximately RMB[**REDACTED**] had been recognized as administrative expenses and approximately RMB[**REDACTED**] will be recognized as a deduction in equity directly upon the [**REDACTED**]. We expect to incur additional [**REDACTED**] of RMB[**REDACTED**] for the year ending December 31, 2022, of which approximately RMB[**REDACTED**] is expected to be recognized as administrative expenses for the year ending December 31, 2022 and approximately RMB[**REDACTED**] is expected to be recognized as a deduction in equity directly upon the [**REDACTED**].

[**REDACTED**]

SUBSEQUENT EVENT

There is no material subsequent event undertaken by our Group after December 31, 2021, being the date on which our latest audited consolidated financial statements were prepared, up to the date of this document.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since December 31, 2021, being the date on which our latest audited consolidated financial statements were prepared, and there is no event since December 31, 2021 which would materially affect the information as set out in the Accountants' Report in Appendix I.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.