

## SUMMARY

*This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by and should be read in conjunction with, the full document. You should read the whole document before you decide to [REDACTED] in the [REDACTED]. There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set forth in the section headed “Risk Factors” of this document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].*

### OVERVIEW

We are a smart learning device service provider in China, focusing on the design, development, manufacturing and selling of smart learning devices embedded with digital educational resources for China’s primary and secondary students, their parents and school teachers. We have become a technology-powered smart learning device service provider with established education product and service offerings 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. Our Readboy brand was recognized as a reputable technology-powered education brand in China. We have accumulated over 5.5 million registered users as of the Latest Practicable Date, and by May 2022, our average MAU amounted to over 1.4 million in the past 12 months.

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

In addition, we have established a nationwide offline distribution network with deep penetration. Our products are generally sold to our distributors, who then onsell our products to end users, such as students or their parents, in the cases of personal student tablets and wearables products, and schools, in the case of smart classroom solutions. 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. Our end users may get familiar with our products at offline points of sales through first-hand experience with the assistance from offline store staff. In addition, offline presence in local markets enables our brand and products and services to gain trust from end users. Such offline points of sales help us to communicate with and deliver after-sales and operational services to end users in a more effective manner, which we believe will generate word-of-mouth referral and spread of our brand name and reputation, thereby further expanding user base. As of the Latest Practicable Date, we contracted 129 offline distributors who controlled a total of 4,608 points of sales located in 344 cities covering 31 provinces and autonomous administrative regions, including municipalities, across China. We strive to establish a nationwide distribution network with deep penetration, especially in third- and lower-tier cities in China. The number of the points of sales located in third- and lower-tier cities accounted for approximately 68.6%, 69.7% and 70.9% of total points of sales in 2019, 2020 and 2021, respectively. We also distribute our smart learning devices empowered by our digital educational resources through self-operated online channels as well as online distributors. Besides our efforts in strengthening our nationwide offline distribution network, we also introduce and implement new and innovative marketing measures, such as social media operations on WeChat, Weibo and TikTok and online live streaming sales, to achieve the expansion of our end user base, which in turn will improve the traffic of our offline stores. We expect such online-to-offline model will not only attract potential individual end users to promote our online sales but also will increase the sales at offline stores.

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### Our Technology-powered Education Product and Service Offerings

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

### Our Smart Learning Devices

We design, develop, manufacture and market smart learning devices empowered by digital educational resources primarily targeting primary and secondary students in China, creating a flexible, efficient, effective, interactive and personalized learning experience.

- **Personal student tablets.** Our personal student tablets are designed for personal end users who are primary and secondary (including middle and high school) students aging from 6 to 18, equipped with digital educational resources, mainly synchronous lesson preparation, review and learning materials, which are supplemental to the in-school education for compulsory school education, and certain selected featured learning resources. In 2018, the total shipment of our personal student tablets was 399.6 thousand units. During the Track Record Period, the total shipments of our personal student tablets were 456.9 thousand units, 484.6 thousand units and 458.8 thousand units in 2019, 2020 and 2021, respectively. The retail price of our personal student tablets mainly ranges from approximately RMB2,000 to RMB5,000.
- **Smart classroom solutions.** Our smart classroom solutions typically refer to the smart educational devices embedded with smart classroom management functions, which provide a connected and interactive learning environment for school teachers and students on one hand and enable parents to monitor the learning status of their children on the other hand. Our smart classroom solutions are designed for primary and secondary schools and aim to enhance the way of teaching and learning digitally, promoting teaching quality and efficiency. Except for a few samples of short-form animation courseware pre-installed on our personal student tablets, the educational content offered under smart classroom solutions, such as short-form animation courseware and pre-recorded video resources, can only be accessed online through our online platform and mobile APPs. In 2018, the total device shipment of our smart classroom solutions was 4.3 thousand units. During the Track Record Period, the total device shipments of our smart classroom solutions were 7.1 thousand units, 21.3 thousand units and 19.9 thousand units in 2019, 2020 and 2021, respectively. The retail price of the smart educational devices sold under our smart classroom solutions mainly ranges from approximately RMB1,998 to RMB4,898 per unit.
- **Wearable products.** Wearable products provides a wireless and hand-free access to various visual and audio educational resources beyond classroom in pockets of time. Such devices have expanded education scenarios and fueled the students with additional fun and motivation in learning during fragmentary time. In this regard, we have developed smartwatches specifically focusing on educational features and functions. In 2018, the total shipment of our wearable products was 510.7 thousand units. During the Track Record Period, the total shipments of our wearable products were 380.9 thousand units, 112.2 thousand units and 188.5 thousand units in 2019, 2020 and 2021, respectively. Such downward trend in total shipments of our wearable products during the Track Record Period was primarily because (i) we reduced our marketing efforts in promoting existing wearable products as we plan to upgrade our offerings for wearable product and (ii) certain key customers of such products shifted their distribution strategies to focus more on 4G powered products, therefore reducing the purchase orders with us. The retail price of our wearable products mainly ranges from approximately RMB390 to RMB1,000.
- **Other products.** We identify emerging market needs and trends and from time to time develop teaching and learning accessories that compatible to our smart learning devices, such as smart reader pens, aiming to make learning more productive and efficient.

For more details about our smart learning devices, please refer to “Business – Our Business – Our Smart Learning Devices.”

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### **Our Digital Educational Resources**

We strive to develop digital educational resources catering to the diverse learning needs of primary and secondary school students in all age groups from 6 to 18 years old, facilitating them to develop more productive and efficient learning skills, and thus, better academic performance. Our current major digital educational resources may be classified into synchronous lesson learning resources, advanced learning resources and featured learning resources, targeting students with different learning needs. For more details about our digital educational resources, please refer to “Business – Production and Assembly – Our Digital Educational Resource Offering.”

We produce short-form animation courseware, each focusing on one knowledge point and lasting for about three minutes. As of the Latest Practicable Date, we had produced 3,319 such animation courseware. In addition, we also offer online pre-recorded video resources held by us through our online learning platform. As of the Latest Practicable Date, our online learning platform had hosted pre-recorded video lasting for over 12,192 hours. Except for a few samples of short-form animation courseware pre-installed on our personal student tablets, the educational content, such as short-form animation courseware and pre-recorded video resources, can only be accessed online through our online platform and mobile APPs.

### **Our Mission and Vision**

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

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

### **OUR MARKET OPPORTUNITIES AND MARKET POSITIONS**

We operate in a highly competitive industry, while we believe that there remain huge market opportunities and unsatisfied learning needs nationwide, especially in lower-tier cities. According to the Frost & Sullivan Report, in 2021, total K-12 students in China was approximately 232.2 million persons, of which 169.5 million, or 73%, were located in third- and lower-tier cities. It is expected to be 224.3 million K-12 students in China by 2026, of which 161.5 million, or 72%, are located in third- and lower-tier cities. Despite a mild decrease in the absolute number of population, the overall smart learning device service market is still underserved mainly due to the limited number of industry players and presents remarkable opportunities. In addition, the continuous implementation of the “two-child policy” in 2016 and the recently announced “three-child policy” in 2021 by the central government would also boost the long-term population growth and improve the country’s population structure. However, in 2021, China’s birth rate remained at a relatively low level.

The smart learning device service market we operate in may be further classified into two main segments, namely the To-C-based learning market which mainly serves personal end users and the To-B-based learning market which mainly refers to digital in-school teaching solutions. In 2021, the total market of smart learning device in China reaches RMB65.9 billion and the market size of the To-C-based segment was RMB32.9 billion, representing a CAGR of 23.7% and 22.5% from 2017, respectively. The total market of smart learning device in China is expected to reach RMB145.0 billion and the market size of the To-C-based segment is expected to reach RMB74.1 billion in 2026, representing a CAGR of 17.1% and 17.6%, respectively, from 2021 to 2026.

Compared with learning through educational APPs on general personal tablets, our personal student tablets offer a more personalized, comfortable and efficient study experience to students. In particular, leveraging our in-depth knowledge of student learning behavior and performance data, we developed AI systems that are able to identify each individual user’s learning performance and learning progress, and generate personalized study reports and learning recommendation accordingly. For example, we developed AI tutor system based on expert system technology to monitor and collect an individual user’s learning preferences and feedbacks, such as homework results, and provide personalized learning advices. In addition, different from general personal tablets, our personal student tablets focus on offering educational content, which exclude game apps from our app store and provide access to various online pre-recorded video educational resources. Furthermore, our personal student tablets also

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have specialized functions designed for students that deliver a comfortable and efficient learning experience, such as eye-protection and parental control features, which allow the parents to conveniently track and review the students' learning progress.

### OUR MAJOR SUPPLIERS AND MAJOR CUSTOMERS

During the Track Record Period, aggregate purchases from our top five third-party suppliers or supplier groups in each of the period in terms of dollar amount in aggregate accounted for approximately 27.3%, 28.3% and 26.1%, respectively, of our total purchase costs in 2019, 2020 and 2021. Purchase from our largest supplier in terms of dollar amount accounted for approximately 7.9%, 6.7% and 12.7%, respectively, of our total purchase costs in such periods. During the Track Record Period, our suppliers were mainly raw material suppliers of custom metal and plastic components, electronic components, lithium-ion batteries, liquid crystal displays and so on.

During the Track Record Period, revenue derived from our top five customers or customer groups in each of the period accounted for 29.5%, 25.9% and 29.8% of our total revenue for the years ended December 31, 2019, 2020 and 2021, respectively. Revenue derived from the respective largest customer or customer group over the same periods accounted for 9.3%, 6.7% and 10.0%, respectively. During the Track Record Period, the substantial portion of our customers were our distributors, who were not our agents, and our sales to the distributors are without recourse.

### PRICING

We take into account a number of factors in determining the price of our products, including costs relating to procurement and production, market demands, spending patterns of our target consumers, the prices set by major competitors, and the anticipated profit margins for us. We generally price our products at a similar level with the products offered by our major competitors which have a similar level of hardware performance. We differentiate our products mainly through our efforts in educational content offering, customized learning features and after-sale and operational services.

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

### OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths differentiate us from our competitors and have contributed to our success:

- A China's major smart learning device service provider, building complete education product and service offerings with multiple growth potential;
- A nationwide distribution network with deep penetration which delivers innovative experience, ensures user acquisition efficiency and effectively improves the imbalance in educational resource allocation;
- Successful applications of advanced technologies and strong AI and big-data capabilities, realizing personalized precision education and maintaining a large and growing user base;
- Digital educational resources underpinned by comprehensive and strong content development capability; and
- Experienced, visionary and dedicated management team.

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### OUR BUSINESS STRATEGIES

Our objective is to become a trusted smart learning device service provider. We expect to continue to grow and expand our business, and to further strengthen and advance our leadership and market share in China. We aim to achieve this through the following strategies:

- Continue to optimize our technology-powered education product and service offerings and to identify and realize additional growth potentials and revenue streams;
- Continue to enhance our educational resource development capability and further diversify the offering scope, aiming to deliver greater learning experience and efficiency;
- Deepen the reform of our distribution network and strengthen its penetration and leverage new and innovative marketing measures to expand end individual user base; and
- Selectively pursue strategic investment or acquisition opportunities, extending the value chain of our education product and service offerings.

### SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following is a summary of our consolidated financial information as of and for the years ended December 31, 2019, 2020 and 2021, extracted from the Accountants’ Report set out in Appendix I to this document. The below summary should be read in conjunction with the consolidated financial information in Appendix I, including the accompanying notes and the information set forth in “Financial Information.”

#### Summary 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	%
	<i>(In thousands, except for percentages)</i>					
<b>Revenue</b>	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)
<b>Gross profit</b>	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
<b>Profit before tax</b>	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
<b>Profit and total comprehensive income for the year</b>	<u>69,435</u>	<u>10.4</u>	<u>92,013</u>	<u>12.5</u>	<u>82,146</u>	<u>10.1</u>
Attributable to owners of the parent	<u>69,435</u>	<u>10.4</u>	<u>92,013</u>	<u>12.5</u>	<u>82,146</u>	<u>10.1</u>



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

To supplement our consolidated 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] expenses and changes in fair value of financial liabilities at fair value through profit or loss in connection with the shares we issued to our [REDACTED] Investors. Adjusted net profit margin is calculated by adjusted net profit for the year divided by total revenue for the year. [REDACTED] expenses 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. 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.

While these non-HKFRS measures provide additional financial measures for [REDACTED] 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.

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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	69,435	92,013	82,146
Add:			
[REDACTED] expenses	–	–	[REDACTED]
Less:			
Changes in fair value of financial liabilities at fair value through profit or loss	–	–	26,649
<b>Adjusted net profit for the year (a non-HKFRS measure)</b>	<b>69,435</b>	<b>92,013</b>	<b>[REDACTED]</b>
Net profit margin	10.4	12.5	10.1
Adjusted net profit margin (a non-HKFRS measure)	10.4	12.5	9.5

Our gross profit and net profit increased from 2019 to 2020, primarily due to an increase in sales of our personal student tablets and smart classroom solutions in 2020, which generally had higher selling prices and gross profits than wearable products which accounted for a higher portion of our total sales in 2019. Both of our gross profit margin and net profit margin also increase over the same period, which was primarily due to the constant improvements in our product mix where the proportion of sales of products with relatively higher profit margin increased. Our net profit increased by 32.5% from RMB69.4 million in 2019 to RMB92.0 million in 2020 and our net profit margin increased from 10.4% in 2019 to 12.5% in 2020.

Due to (i) a decrease in gross profit caused by the increased raw material costs and (ii) the [REDACTED] expenses of RMB[REDACTED] we incurred in connection with this [REDACTED] in 2021, our net profit decreased by 10.7% to RMB82.1 million in the year ended December 31, 2021, comparing with the corresponding period in 2020. Due to the same reasons, our net profit margin decreased from 12.5% to 10.1% and, as a result of a decrease

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in gross profit margin caused by the increased raw material costs, our adjusted net profit margin decreased from 12.5% to 9.5% over the same period. In response to increases in raw material costs, we have implemented various strategic measures, mainly including (i) having replaced suppliers for certain key raw materials, such as integrated circuits, from overseas suppliers to domestic suppliers who are able to provide quality raw materials at a relatively lower price, (ii) monitoring market condition for key raw materials and procuring reserves for raw materials at reasonable prices and (iii) identifying multiple suppliers for key raw materials to ensure our procurement enjoys market favorable prices.

Without considering the impact of the [REDACTED] expenses and changes in fair value of financial liabilities at fair value through profit or loss which were in connection with the shares 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, and our adjusted net profit margin, a non-HKFRS measure, would be 12.5% and 9.5% in 2020 and 2021, respectively. See “Financial Information” for a more detailed discussion of our financial performance during the Track Record Period.

### Revenue by Product Categories

The following table sets out a breakdown of our revenue by product categories, 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	%
	<i>(In thousands, except for percentages)</i>					
Personal student tablets						
Devices <sup>(1)</sup>	448,321	66.9	550,702	75.0	571,626	70.3
Digital educational resources and services <sup>(1)</sup>	93,173	13.9	114,226	15.6	133,397	16.4
<b>Sub-total</b>	<b>541,494</b>	<b>80.8</b>	<b>664,928</b>	<b>90.6</b>	<b>705,023</b>	<b>86.7</b>
Smart classroom solutions						
Devices <sup>(1)</sup>	7,249	1.1	20,419	2.8	19,300	2.4
Digital educational resources and services <sup>(1)</sup>	914	0.1	1,874	0.3	4,279	0.5
<b>Sub-total</b>	<b>8,163</b>	<b>1.2</b>	<b>22,293</b>	<b>3.1</b>	<b>23,579</b>	<b>2.9</b>
Wearable products <sup>(2)</sup>	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 <sup>(3)</sup>	2,431	0.4	12,968	1.8	12,966	1.6
<b>Total</b>	<b>669,853</b>	<b>100.0</b>	<b>733,997</b>	<b>100.0</b>	<b>813,181</b>	<b>100.0</b>

*Notes:*

- (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.
- (2) During the Track Record Period, wearable products represented smartwatches.
- (3) During the Track Record Period, revenue from advertisement and content licensing represented our 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. In 2019, 2020 and 2021, our revenue from content licensing was RMB9 thousand, RMB4.0 million and RMB4.9 million, respectively.

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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 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.

Personal student tablets constituted our major product category during the Track Record Period. The increase in revenue from sales of personal student tablets from 2019 to 2020 primarily due to the increase in total sales volumes, which was a combined result of the development of our distribution network as well as our increased brand recognition and market acceptance of our smart learning devices and the associated digital educational resources, 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 product that with higher retail selling prices. During the same periods, the aggregate shipments of the 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. The shortage was primarily caused by the COVID-19 outbreak since early 2020 which materially interrupted the production activities globally, in particular, in Taiwan, Japan, Korea and the United States where the major circuit manufacturers are located. On the other hand, market demands for laptops and desktop computers increased considerably during the COVID-19 pandemic, which further deteriorated the situation. To prevent future raw material shortage, we have carried out a number of measures, see “Business – Impacts of COVID-19 Outbreak” and “Risk Factors – Risks Relating to Our Industry and Business – Unexpected disruptions or delays in raw material supplies or disputes with our suppliers may cause disruptions and delays in our production, subject us to additional costs” for further information.

Revenue from sales of smart classroom solutions increased from 2019 to 2020, primarily as a result of the market acceptance of our smart learning devices and the associated digital educational resources, and also the result of the increase in sales volumes, reflecting the preferential educational regulations and policies promulgated 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. 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.

See “Financial Information” for a more detailed discussion of our revenue by product categories during the Track Record Period.

### **Revenue Recognition for 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.



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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. 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.

See “Financial Information – Revenue Recognition – Revenue from Contracts with Customers – (a) Sale of Personal Student Tablets” for a more detailed discussion of our revenue recognition policy for sale of personal student tablet.

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

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.

See “Financial Information” for a more detailed discussion of our revenue by sales channels during the Track Record Period.

### 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	
	<b>Gross profit</b>	<b>Gross profit margin</b>	<b>Gross profit</b>	<b>Gross profit margin</b>	<b>Gross profit</b>	<b>Gross profit margin</b>
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
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
<b>Sub-total</b>	<b>152,626</b>	<b>28.2</b>	<b>182,968</b>	<b>27.5</b>	<b>140,673</b>	<b>20.0</b>

## SUMMARY

	Year Ended December 31,					
	2019		2020		2021	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
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
<b>Sub-total</b>	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
<b>Total</b>	<u>174,383</u>	26.0	<u>201,712</u>	27.5	<u>169,172</u>	20.8

Gross profit of our personal student tablets increased by approximately 19.9% from 2019 to 2020, which was primarily due to the increase in total sales. Gross profit of our personal student tablets decreased in 2021, primarily due to the continued unstable supply of certain raw materials, which caused by an increase in raw material costs. Gross profit margin of personal student tablets in 2019 was relatively higher as the proportion of sales of high-end product models increased that typically carried a relatively higher selling price and profit margin. 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. In response to such raw material shortage, we have implemented various strategic measures, mainly including (i) having secured additional alternative suppliers for integrated circuits, (ii) increasing the versatility of raw materials to be used across different product models and (iii) identifying alternative raw materials and expanding our bills of materials.

Gross profit of our smart classroom solutions increased by approximately 69.9% from 2019 to 2020. Such increase was 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, 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 smart classroom solutions increased by 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.

See “Financial Information” for a more detailed discussion of our gross profit and gross profit margin by product categories during the Track Record Period.

## SUMMARY

### 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
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
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
<b>Total</b>	<b>174,383</b>	<b>26.0</b>	<b>201,712</b>	<b>27.5</b>	<b>169,172</b>	<b>20.8</b>

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. In 2021, the decrease in gross profit margin of offline distributors outpaced that of self-operated online platforms, which was primarily because the average unit gross profit of self-operated online platform was generally higher than that of offline distributors due to the relevant sales were directly made to the end users, and therefore the impact of increased raw material costs in 2021 accounted to a fewer proportion of the gross profit of self-operated online platform than that of offline distributors. In 2021, we started to make all of our product offerings available to both online distributors and offline distributors. In consideration of the higher operation cost bear by our offline distributors, for same products, we generally offer relatively lower selling prices to offline distributors than online distributors. As a result, the average unit gross profit of offline distributors was generally lower than that of online distributors, and therefore the impact of increased raw material costs during the year accounted to a higher proportion of the offline distributors than that of online distributors. Accordingly, the decrease in gross profit margin of offline distributors outpaced that of online distributors in 2021.

See “Financial Information” for a more detailed discussion of our gross profit and gross profit margin by sales channels during the Track Record Period.

## SUMMARY

### Summary of Consolidated Statements of Financial Position

	As of December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>	117,992	116,352	105,637
Property, plant and equipment	51,993	50,394	48,453
Investment properties	14,378	13,992	13,606
Deferred tax assets	18,761	22,131	32,548
<b>Current assets</b>	391,120	523,860	707,265
Inventories	219,409	198,766	258,219
Trade receivables	16,965	23,566	47,551
Cash and cash equivalents	133,366	253,318	333,340
<b>Current liabilities</b>	248,256	424,141	391,944
Trade and bills payables	85,101	97,206	68,299
Other payables, accruals and contract liabilities	145,419	190,525	197,748
Amounts due to shareholders	–	128,000	117,561
<b>Net current assets</b>	142,864	99,719	315,321
Total assets less current liabilities	260,856	216,071	420,958
<b>Non-current liabilities</b>	32,392	38,284	162,020
Financial liabilities at fair value through profit or loss	–	–	120,365
<b>Net assets</b>	228,464	177,787	258,938

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 the amounts due to shareholders in connection with the dividends declared in November 2020. Net current assets increased to RMB315.3 million as of December 31, 2021 from RMB99.7 million as of December 31, 2020, 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.

Our net assets decreased from December 31, 2019 to December 31, 2020, primarily due to the dividends declared in November 2020 which amounted to RMB160.0 million, partially offset by our profit and total comprehensive income of RMB92.0 million in 2020. Net assets further increased to RMB258.9 million as of December 31, 2021, primarily due to our profit and total comprehensive income of RMB82.1 million in the year ended December 31, 2021.

As of December 31, 2021, we recorded financial liabilities at fair value through profit or loss of RMB120.4 million, which were in connection with the issue of redeemable shares to certain [REDACTED] Investors. The repurchase right granted to the [REDACTED] Investors would terminate upon the [REDACTED] and all the redeemable shares would be converted to our ordinary shares, on a one for one basis, upon the [REDACTED] and the completion of the [REDACTED].

## SUMMARY

### Summary Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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)
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	<u>133,366</u>	<u>253,318</u>	<u>333,340</u>

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

Going forward, we plan to improve our net operating cash flow position by (a) continuing to upgrade our products and expand product and service offerings so as to increase our revenue from sales of existing and new smart learning devices products and new services, (b) continuing to monitor and enhance management over our trade and bills receivables collection and expedite the cycle of recovering trade and bills receivables, in particular, for distributors who have credit terms, we apply credit limits based on their operational performance, willingness to pay and credit worthiness; in normal circumstances, in the event that any distributor fails to make payments in accordance with its credit terms or has fully utilized its credit limits, we will suspend our shipments and actively communicate with such distributor to ensure the collection of trade and bills receivables, (c) enhancing our inventory management, optimizing our inventory levels based on production and sales forecasts and further shortening inventory turnover period to accelerate cash realization rate, in particular, we formulate raw material procurement plans based on production and sales forecasts and designate our procurement team to accelerate the turnover of raw materials with long inventory turnover period based on the assessment of their potential use and quality with reference to our production plan, (d) continuing to review and implement comprehensive measures to optimize our cost structure and control our costs and expenses, in particular, we conduct cost structure



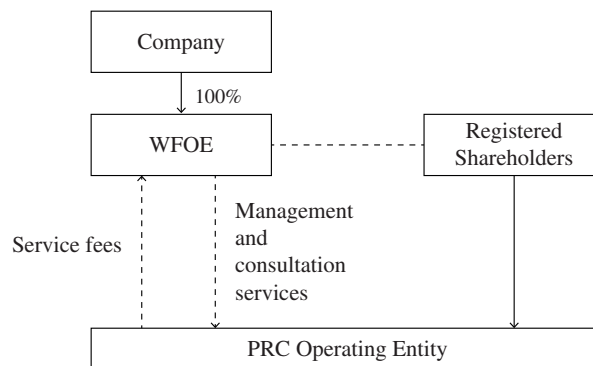
## SUMMARY

review on a monthly basis to monitor the changes in our costs; in the situation that there are fluctuations in selling prices of raw materials, we will timely communicate with our suppliers to secure a stable price and/or quantity; in addition, we will continue to seek credit terms of 30 days or a longer period for payments to our suppliers to avoid unnecessary cash outflow; furthermore, we will enhance our sales and marketing efficiency, conduct frequent evaluations of business performance and make prompt adjustments to sales and marketing plans, and (e) maximizing the value of our surplus cash through investments at low risk.

## CONTRACTUAL ARRANGEMENTS

We currently conduct our smart learning device service business through Zhuhai Readboy in the PRC. Our digital educational resources production and sales business, comprising the production of short-form animation courseware and offering of pre-recorded video resources held by us through our online platform and mobile APPs, and making available access to online free educational resources provided by third parties on our smart learning devices, is considered as value-added telecommunications services in the PRC. PRC laws and regulations generally restrict foreign ownership in value-added telecommunications services in the PRC and also impose qualification requirements on the foreign owners. Given that our business falls within the scope of “value-added telecommunications” which requires an ICP License to operate in the PRC, we cannot hold a direct controlling interest in Zhuhai Readboy, which holds the licenses and permits required for its business operations. Instead, we maintain effective control over Zhuhai Readboy and its business operations through Contractual Arrangements. For more details, please refer to the section headed “Contractual Arrangements” in this document.

The following simplified diagram illustrates the flow of economic benefits from Zhuhai Readboy to our Group stipulated under the Contractual Arrangements:



### Notes:

“ — ” denotes direct legal and beneficial ownership in the equity interest

“ -.- ” denotes contractual relationship

“ -.-.- ” denotes the control by WFOE over the Registered Shareholders through (1) powers of attorney to exercise all Registered Shareholders rights in Zhuhai Readboy, (2) exclusive options to acquire all or part of the equity interests in Zhuhai Readboy held by the Registered Shareholders, (3) equity pledge over the interest in Zhuhai Readboy, and (4) the Individual Shareholder Spouse Undertakings.

## CONTROLLING SHAREHOLDERS

Immediately following the completion of the [REDACTED] and the [REDACTED] (assuming that the [REDACTED] is not exercised and without taking into account any Shares which may be issued pursuant to the [REDACTED] RSU Scheme and [REDACTED] Share Option Scheme), by virtue of the Concert Parties Confirmatory Deed, Mr. Chen, Mr. Qin, Sky Focus, Kimlan Limited and Trade Honour will be together interested in approximately [REDACTED]% of the issued share capital of the Company. Sky Focus is entirely held by Kimlan Limited which is in turn entirely held by Maples Trustee Services (Cayman) Limited, the trustee of Joywish Family Trust. Joywish Family Trust is a discretionary trust established by Mr. Chen as the settlor, and the beneficiaries of which include Mr. Chen and his family

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## SUMMARY

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members. Trade Honour is a wholly-owned company of Mr. Qin. As Mr. Chen, Mr. Qin, Sky Focus, Kimlan Limited and Trade Honour will continue to control more than [REDACTED]% of the issued share capital of the Company, and by virtue of the Concert Parties Confirmatory Deed, they will be regarded as a group of Controlling Shareholders under the Listing Rules. For more details, please refer to the section headed “Relationship with our Controlling Shareholders” in this document.

### [REDACTED] INVESTORS

On March 22, 2021, Glorious Achievement, Golden Genius and Mr. Cheng entered into a share purchase agreement with Mr. Chen, Sky Focus, Mr. Qin, Trade Honour, Readboy Education Group, Readboy Education HK, Readboy Technology, Zhuhai Readboy and the Company, pursuant to which the Company agreed to allot 44,403, 18,308 and 4,577 Shares to Glorious Achievement, Golden Genius and Mr. Cheng respectively at a consideration of US\$15,000,000, US\$6,184,674.38 and US\$1,546,168.59 respectively.

Immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised and without taking into account any Shares which may be issued pursuant to the [REDACTED] RSU Scheme and [REDACTED] Share Option Scheme), Glorious Achievement, Golden Genius and Mr. Cheng will hold approximately [REDACTED]%, [REDACTED]% and [REDACTED]% of the issued Shares. For more details, see the paragraph headed “History, Reorganization and Corporate Structure – [REDACTED] Investments” of this document.

### [REDACTED] EXPENSES INCURRED AND TO BE INCURRED

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

[REDACTED]

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## SUMMARY

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[REDACTED]

### FUTURE PLANS AND [REDACTED]

The table below sets forth the estimated [REDACTED] of the [REDACTED] which we will receive after deduction of [REDACTED] fees and commissions and estimated expenses payable by us in connection with the [REDACTED]:

	<u>Assuming the [REDACTED] is not exercised</u>	<u>Assuming the [REDACTED] is exercised in full</u>
Assuming an [REDACTED] of HK\$[REDACTED] per Share (being the mid- point of the [REDACTED] stated in this document)	HK\$[REDACTED]	HK\$[REDACTED]

We intend to use the [REDACTED] of HK\$[REDACTED] of the [REDACTED] for the following purposes assuming the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED]) and assuming the [REDACTED] is not exercised:

- approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED], will be used to deepen the reform of our distribution network and strengthen its geographic expansion and penetration;
- approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED], will be used for the research and development of our information technologies and infrastructure to enhance our overall technical advantages in delivering smart learning devices with digital educational resources;
- approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED], will be used for the investments in optimizing our product and service offerings to further enhance our competitiveness;
- approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED], will be used to enhance our educational material development capability and further diversify our digital educational resources; and
- approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED], will be used as our working capital and for general corporate purposes.

See “Future Plans and [REDACTED]” for further details.

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## SUMMARY

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### DIVIDEND

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 all these 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.

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. In addition, given that no less than 20% of our profits is expected to be available for distribution generated in each financial year after the [REDACTED], no deferred tax liabilities have been recognized for withholding tax. 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.

### RISK FACTORS

There are certain risks involved in our operations and in connection with the [REDACTED], many of which are beyond our control. These risks can be categorized into (i) risks relating to our industry and business, (ii) risks relating to our contractual arrangements, (iii) risks relating to doing business in the PRC, and (iv) risks relating to the [REDACTED]. We believe that the most significant risks we face include the following: we are subject to risks and uncertainties in connection with the changes of the PRC education regulations and policies; our business depends heavily on the strength of our brand awareness and reputation and end users’ recognition and their trust in our products and digital educational resources; we face intense competition which could divert students to our competitors, lead to pricing pressure and loss of market shares; we may not be able to launch and diversify new products and educational resources to adapt to changing customer demands in a timely manner; our development strategies may not achieve the expected goals in the near term, or at all; we may not be able to successfully expand and strengthen our distribution network; and we may not be able to effectively control and monitor the third-party distributors’ operations or maintain our current relationship with them. A detailed discussion of all the risk factors involved are set forth in “Risk Factors” and you should read the whole section carefully before you decide whether to [REDACTED] in the Shares.

### RECENT DEVELOPMENTS

#### Business and Financial Highlights

Our industry and our business operations have been facing the uncertainties from the release of 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》) in July 2021, see “Recent Regulatory Changes” below for a detailed discussion.

## SUMMARY

Set forth below are certain material developments on our business and results of operations after December 31, 2021, and up to the Latest Practicable Date:

- by May 2022, our average MAU amounted to over 1.4 million in the past 12 months, and our MAU also remained at over 1.4 million in each of the months from August to December 2021, which increased to 1.5 million in each of the months from January to May 2022, indicating the unchanged popularity of our smart learning devices;
- The table below sets forth our monthly shipment of personal student tablets since August 2021, the time when the Opinions were released, and up to May 2022 and corresponding periods in previous years for reference purpose:

	Year ended December 31,				
	2018	2019	2020	2021	2022
	<i>(units, in thousands)</i>				
January	46.4	48.5	57.8	51.1	19.1
February	18.5	29.6	33.3	38.8	12.5
March	26.6	27.1	51.4	43.9	23.4
April	17.5	13.1	25.9	12.5	18.2
May	19.2	9.0	13.2	29.3	24.0
August	45.0	54.0	74.8	36.7	N/A
September	66.5	82.5	59.9	61.7	N/A
October	23.7	23.4	29.7	23.5	N/A
November	23.4	35.9	32.2	11.3	N/A
December	33.5	21.6	28.5	54.0	N/A

The total shipment of personal student tablets for the period from January 2022 to May 2022 was relatively lower than that for the same period in 2021, primarily due to (i) the intensified pandemic control restrictions in response to the resurgences of COVID-19 outbreak, which resulted in the delays in the transportation of certain of raw materials, the slowdown in our production and the delays in the delivery schedule of our products to distributors and (ii) the temporary closure of points of sales operated by our distributors and the resultant more conservative order placing from distributors under the uncertain market environment as an impact of the resurgence of COVID-19 outbreak; as a result, based on our unaudited management accounts, we recorded a decrease in revenue for the five-month period ended May 31, 2022, as compared to the corresponding period in 2021;

The monthly shipment of personal student tablet was generally higher in August and September than that in other months in the same year, primarily because we generally record higher sales in summer vacation and at the beginning of the new school year as students generally increase their spending on smart learning devices at the beginning of a school year; the monthly shipment of personal student tablet in August 2021 was relatively lower than that in the same month in previous years, primarily due to the conservative order placing strategy adopted by our offline distributors in response to the uncertain market and regulatory environment immediately after the release of the Opinions in July 2021; the monthly shipment of personal student tablets was high in December 2021, primarily because our distributors increased their purchases with an earlier schedule in preparation for the upcoming Chinese New Year, which was in early February 2022, as the longer shipping time would be required under the intensified COVID-19 pandemic control restrictions and most logistic services would typically be suspended during such holidays; the monthly shipment of personal student tablets was low in January and February 2022, primarily due to (i) the relatively high inventory level of our distributors subsequent to their purchases made in December 2021, (ii) the relatively low sales in the Chinese New Year holiday and (iii) the uncertain market environment due to the resurgence of COVID-19 outbreak across the nation; the



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## SUMMARY

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monthly shipment of personal student tablet was generally lower in April than that in March, primarily because less students choose to purchase smart learning devices during the spring semester; the relatively high monthly shipment of personal student tablet in April 2020 was primarily due to the initial outbreak of COVID-19 pandemic, which resulted in an increase in the number of students who studied at home;

As of December 31, 2019, 2020 and 2021 and May 31, 2022, our offline distributors recorded unsold personal student tablet of 75.5 thousand units, 66.6 thousand units, 75.3 thousand units, and 40.2 thousand units, respectively; the relatively lower inventory level of unsold personal student tablet as of December 31, 2020 was primarily due to the initial outbreak of COVID-19 pandemic, which resulted in an increase in the number of students who studied at home and an increase in sales of our offline distributors in 2020; the number of unsold personal student tablet held by our offline distributors decreased from December 31, 2021 to May 31, 2022, primarily because the inventories of offline distributors purchased in December 2021 were gradually sold to users and our offline distributors were more conservative in order placing under the uncertain market environment as an impact of the resurgence of COVID-19 outbreak during the period; to ensure the healthy inventory level of our distributions, we leverage our information management system to manage the inventory level of our distributors through review of their monthly sales reports and regular communication with the responsible personnel; for distributors who have a relatively high level of inventories, we will assess their operational performance and require them to sell unsold inventories and reduce their inventory level to a required level within a given period; we require such distributors to submit their subsequent sales plan for unsold inventories and confirmations on sales progress for unsold inventories; in the event that such distributors fail to achieve their subsequent sales plan and reduce their inventory level to our required level within a given period, we may suspend our shipment to such distributors;

Compared to the three months periods from December to February in 2019, 2020 and 2021, respectively, the monthly shipment of personal student tablets was relatively higher in December 2021 and lower in January and February 2022, such different pattern was primarily because (i) the Chinese New Year of 2019 was in early February of the year, when the logistic services were not impacted by the COVID-19 pandemic, (ii) the Chinese New Year of 2020 was in late January of the year, when the logistic services were not impacted by the COVID-19 pandemic and (iii) the Chinese New Year of 2021 was in mid-February of the year, which respectively encouraged our distributors to generally arranged their purchases in preparation for the Chinese New Year in January of the corresponding year; The total shipment of personal student tablets for the period from January 2022 to May 2022 was relatively lower than that for the same period in 2021, primarily due to (i) the intensified pandemic control restrictions in response to the resurgences of COVID-19 outbreak, which resulted in the delays in the transportation of certain of raw materials, the slowdown in our production and the delays in the delivery schedule of our products to distributors and (ii) the temporary closure of points of sales operated by our distributors and the resultant more conservative order placing from distributors under the uncertain market environment as an impact of the resurgence of COVID-19 outbreak; as a result, we recorded a decrease in sales amounts recognized from personal student tablets for the five months ended May 31, 2022 as compared to the same period in 2021; the monthly shipment of personal student tablet was generally lower in April than that in March, primarily because less students choose to purchase smart learning devices during the spring semester; the relatively high monthly shipment of personal student tablet in April 2020 was primarily due to the initial outbreak of COVID-19 pandemic, which resulted in an increase in the number of students who studied at home;

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## SUMMARY

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- during the period from January 1, 2022 and up to the Latest Practicable Date, the total shipments of our personal student tablets, smart classroom solutions and wearable products amounted to approximately 120.9 thousand units, 1.9 thousand units and 42.4 thousand units, respectively;
- since the end of the Track Record Period, we have continuously developed our distribution network; during the period from January 1, 2022 and up to the Latest Practicable Date, we newly contracted 24 offline distributors and terminated business with 18 offline distributors and the total number of points of sales increased to 4,608 controlled by 129 offline distributors as of the Latest Practicable Date; and
- Our gross profit margin decreased from 27.5% in 2020 to 20.8% in 2021, primarily due to an increase in raw material costs. During the same period, our net profit margin decreased from 12.5% to 10.1%, mainly resulting from the decrease in gross profit margin. In addition, our gross profit margin of personal student tablets decreased from 27.5% in 2020 to 20.0% in 2021 as a result of the unstable supply of certain raw materials in 2021 which caused an increase in raw material costs.

For more details about our recent business and financial developments, please also refer to “Business – Recent Developments – Business and Financial Highlights.”

### Developments in Product Offering

In response to the new regulatory regime, subsequent to the Track Record Period, we closely reviewed our product offerings with a view to establishing a Readboy smart education environment. Readboy smart education environment is a student-centered smart learning environment powered by various advanced technologies, including AI, big data and 5G, which consists of smart learning device product and service offerings and smart school solutions. To further build up the smart learning device product and service offerings, we intend to develop more accessory products that deliver a pleasant and efficient learning experience, such as smart desk sets, smart audio books and so on. We also in the process developing more education content, and have placed more focus on our smart school solutions, which support school with smart solutions on staff and campus management, teaching, facility operation and logistics management. Since October 1, 2021 and up to the Latest Practicable Date, we have launched a series new products. Please refer to “Business – Recent Developments – Developments in Product Offering” for a more detailed introduction of our recent new products.

After the release of the Opinions, we had promptly discontinued the offering of our self-developed live-streaming classes. In addition to the existing pre-recorded video resources and courseware, to the extent permitted by the relevant laws and regulations, we have been actively identifying additional educational resources from third parties that can be accessed from our smart learning devices. We were advised by our PRC Legal Advisor that, pursuant to the Opinions, (i) live-streaming classes for academic subjects are not completely prohibited; provision of live-streaming classes is allowed as long as the following requirements are met: (a) providers shall be registered as non-profit organizations by competent governmental authorities; (b) providers shall obtain the permit to commence (辦學許可證) and/or other requisite approvals; (c) other requirements provided by competent governmental authorities, such as such classes cannot be provided in holidays and time slot after 9 PM during the working days. On the other hand, the Opinions also encourages provision of free online educational resources to students. Therefore, after the implementation of the Opinions, the central government of the PRC has established official online free educational resources platforms, such as the National Cloud Learning Platform for Primary and Secondary Students. There are also other qualified non-profit organizations with the permit to commence and other necessary approvals providing online free educational resources, including live-streaming resources. Since the discontinuity of our self-developed live-streaming resources and up to the Latest Practicable Date, in addition to the pre-recorded video resources prepared by ourselves, we also have made available access to such additional online free educational resources on our smart learning devices.

In order to prudently comply with the Opinions and other newly released policies, we sought advice from our PRC legal advisor and conducted thorough due diligence on the relevant third party providing the online free educational resources to ensure such third party is qualified to provide the educational resource in accordance with the Opinions and other relevant policies. In particular, a designated team under our Readboy Institute of Education

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Technology selected and approved the third parties to offer online free educational resources on our smart learning devices on conditions that (i) such third parties hold valid permits to commence (non-profit) (辦學許可證(非營利性)) and (ii) such third parties and the relevant educational resources have been duly registered with on the National After-school Tutoring Regulatory and Service Platform (全國校外教育培訓監管與服務綜合平台).

Our PRC legal advisor is of the view that the provision of online free educational resources on our smart learning devices by qualified non-profit organizations with the permit to commence and other necessary approvals is not in violation of the application laws and regulations, on the basis that (i) the relevant third parties providing the online free educational resources with qualifications of non-profit organizations, the permit to commence and other necessary approvals comply with the requirements under the Opinions; and (ii) the online free educational resources do not constitute the restrictive content as stipulated in the Provisional Administrative Provisions on the Pre-installation and Distribution of Mobile Smart Terminal Application Software (《移動智能終端應用軟件預置和分發管理暫行規定》).

As of the Latest Practicable Date, we have not been found in violation of any relevant laws and regulations in connection with the provision of online free educational resources on our smart learning devices by qualified non-profit organizations. Such additional online free educational resources may be accessed by our smart learning devices through third-party mobile apps or websites and the end users are at their discretion to install or uninstall such mobile app or to visit the relevant websites on the smart learning device. We currently do not pay fees for such free online educational resources and the end users are not separately charged fees either. We will continue to adopt the prudent approach when identifying more third parties for the provision of educational resources. Please also refer to “Risk Factors – Risks Relating to Our Business and Industry – Our failure to detect or prevent fraudulent or illegal activities or other misconduct by our employees, distributors, suppliers or other third parties may have a material adverse effect on our business” for more details. We will also explore new formats of collaboration that are permitted by the relevant laws and regulations.

For more details about our recent business and financial developments, please also refer to “Business – Recent Developments – Developments in Product Offering.”

### **Expected Performance for the Year Ending December 31, 2022**

For the five months ended May 31, 2022, the total shipment of our personal student tablet and our operations were negatively impacted by various factors, mainly including (i) the resurgence of COVID-19 outbreak and (ii) the relatively high level of inventory maintained by our distributors subsequent to their purchases made in December 2021, resulting from their orders made in preparation for the Chinese New Year in response to the longer shipping time under the intensified COVID-19 pandemic control restrictions. As the situation of COVID-19 outbreak has been gradually improved since May 2022, we expect that our total shipment of personal student tablets and our revenue for the year ending December 31, 2022 will remain relatively stable as compared to that in the year ended December 31, 2021, respectively.

Based on our unaudited management accounts, we recorded a decrease of approximately 41.0% in revenue for the five-month period ended May 31, 2022, as compared to the corresponding period in 2021. We also recorded a net loss for the five-month period ended May 31, 2022, primarily because (i) our revenue during the period was relatively low due to the resurgences of COVID-19 outbreak and (ii) our marketing expenses and research and development expenses were relatively high as we increased our efforts in market promotion and research and development. We expect to achieve net profit for the year ending December 31, 2022 through (i) further developing our offline distribution network to reach new local markets and additional end users, (ii) increasing our efforts in research and development to introduce new products and enhance the competitiveness of our products and (iii) implementing cost control measures with respect to our raw material procurement in order to mitigate the impact of changes in raw material prices. In addition, we expect that our net profit for the year ending December 31, 2022 will be significantly lower than that for the year ended December 31, 2021, primarily due to (i) the estimated income tax expenses to be incurred in the year ending December 31, 2022, while we recorded tax credits in the year ended December 31, 2021 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, (ii) an increase in marketing expenses, mainly because we plan to further improve our marketing performance and introduce marketing activities to promote our service and products in the year ending December 31, 2022, (iii) an increase in research and development expenses, mainly due to our increased efforts in developing new smart learning products in the year ending December 31, 2022, and (iv) a decrease in gains recognized from changes in fair value of financial liabilities

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at fair value through profit or loss, mainly due to a decrease in the value of our equity which was measured based on the valuation techniques determined by the independent and qualified valuer; we recorded a gain in fair value of financial liabilities at fair value through profit or loss of RMB26.6 million in the year ended December 31, 2021, which were in connection with the issue of redeemable shares to certain [REDACTED] Investors.

Our adjusted net profit, a non-HKFRS measure, decreased by 16.3% from RMB92.0 million in 2020 to RMB77.0 million in 2021. Due to the expected decrease in net profit, we estimate that our adjusted net profit for the year ending December 31, 2022 will be significantly lower than that for the year ended December 31, 2021.

Save for the above, our Directors confirm that, as of the date of this Document, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since December 31, 2021, the end of the period reported on in the Accountants’ Report set out in Appendix I to this Document.

### RECENT REGULATORY CHANGES

#### Education Related Regulations and Policies

It is noticed that local and central governments have issued a number of policies recently, promoting the healthy growth of after-school tutoring market, including but not limited to the restriction on class hours of after-school tutoring sessions, qualification of relevant teaching crew, requirements for operating online educational content and education APPs, regulating the pricing of online and offline courses and punishing false advertisements. In particular, in July 2021, the General Office of Central Committee of the Communist Party of China and the General Office of State Council issued the Opinions, which reaffirmed the government’s political strategies to promote the quality of compulsory in-school education and increase the diversity of educational services provided by schools, and indicated the government’s initiatives to strengthen the offering of free online education content and encourage students to utilize such education content. According to the Opinions, after-school tutoring industry will be subject to more stringent regulatory restrictions while in-school education will play a more significant role for China’s primary and secondary school students. A number of follow-up new policies were released after the Opinions, but it is uncertain at current stage whether the central and local education authorities will introduce additional and more stringent regulations to govern the after-school tutoring market, and when and how those detailed rules will be implemented, and how they still affect our industry and our business operations. Please refer to “Regulatory Overview – Recent changes to PRC education regulatory regime” and “Risk Factors – Risks Relating to Our Industry and Business – We are subject to a wide variety of regulations and are required to obtain and maintain various licenses and permits, any failure of which may have a material adverse effect on us” for more details.

As confirmed by the relevant governmental authority and our PRC Legal Advisor detailed in the following paragraphs, we are not an after-school tutoring service provider whose operations are directly regulated by the Opinions. See “– Recent Communications with Regulatory Authorities” below for further details.

#### *Business Adjustments*

Our smart learning devices are designed to encourage students’ learning interests and cultivate their learning habits, and the embedded digital education resources do not require compulsory attendance and are not intended to set up any specific learning goal. Regardless of the above, we took a prudent approach and with an eye on better complying with the government policies, we had reviewed our business operations and had discontinued to offer any live streaming classes since August 2021. We have thoroughly reviewed our online platform and mobile APPs to remove the access to any live streaming classes and we have terminated any application process for such classes. To continue to fulfill the relevant learning needs, we have been producing pre-recorded video resources for those educational resources and the users are notified and redirected to explore our pre-recorded video resources for the content they are interested in.

We believe the discontinuity of live streaming classes will not have a material adverse impact on our business and financial performance, on the basis that (i) historically we did not separately charge fees based on digital educational resources we have offered, and (ii) leveraging our strong educational resource development capability and experience, we are able to maintain the quality and diversity of the content offerings on our smart learning devices by improving other forms allowed by the new regulatory regime, such as courseware and



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pre-recorded video resources. Such belief is supported by an online survey research conducted by Frost & Sullivan in January 2022 with 1,000 students and parents across the country. Please refer to “Business – Production and Assembly – Our Digital Educational Resource Offerings – Recent Regulatory Changes and The Impacts on Education Resources” for more details about the findings of this survey. Monthly total views of our pre-recorded video resources from August 2021 to May 2022 were generally higher than the corresponding periods in the previous year. Total views increased by approximately 40.9% in the eight-month period from January to August 2021, comparing with the corresponding period in 2020, indicating an increasing popularity of our online education resources. As such, we believe that the popularity and the customer demand for smart learning devices in China remain strong which are not materially adversely affected by the release of the Opinions and the discontinuity of the live streaming classes available on the smart learning devices, if any.

Moreover, we believe our business growth in the past several years has been attributable to a number of factors, including but not limited to, (i) the continuous improvements in the quality and functionality of our smart learning devices by adopting the latest technologies, (ii) the quality and the increasing amount of education resources, which were provided in the format of pre-recorded video resources, courseware, and live-streaming classes (prior to its discontinuity), (iii) the expansion of our distribution network which facilitates the distribution and sales of the smart learning devices, (iv) other various marketing efforts we have made over years, and (v) the established reputation and brand recognition. In addition, we also believe that our business growth has been a result of the gradual accumulation of these factors over time, which could not be achieved instantly by an occurrence of any isolated event, i.e. the launch of the self-developed live streaming classes. To maintain the variety and quality of our education resources after the discontinuity of the live streaming classes, we have been producing and uploading pre-recorded video resources for those educational resources previously provided by the live streaming classes. We did not directly convert live-streaming classes to pre-recorded video format and upload online. Instead, we summarize the key points based on the compulsory education curriculum and syllabus frameworks and produce video content that organize and present the key points in a way that the students could understand better.

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

We have also reassessed and optimized our human resources to accommodate these adjustments to our business operations. In particular, we reviewed our full-time educational resource research and development crew who were primarily responsible for live-streaming classes, and reallocated them to content research and development, visual design, animation development and other teams, based on their respective skills and qualification.

We believe the smart learning device service market in China remains to be broadly imbalanced and underserved, given that (i) according to the Frost & Sullivan Report, total K-12 students, our target users, in China was approximately 232.2 million in 2021 while our registered users were over 5.5 million as of the Latest Practicable Date and by May 2022, our average MAU amounted to over 1.4 million in the past 12 months, (ii) there are over 3,100 county level cities or above in China while our offline distributor network currently only covers 344 county level cities, (iii) there are over 220,000 primary and secondary schools in China while the number of schools to which we supplied our smart classroom solutions was approximately 320 as of the Latest Practicable Date; and (iv) under the recent new education regulatory regime, schools are highly encouraged to carry out digital transformation which creates intensified needs for sophisticated smart classroom solutions; all of the above indicate that our current penetrations, in terms of geographic coverage, student population or school coverage, are generally low and there remain huge market demands and opportunities for us. Despite the above adjustments we made, we believe our smart learning devices remain attractive and popular, regardless of abundant free online education resources and other mobile tablets on the market that are not specially designed for students. Our smart learning devices



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possess a number of competitive advantages, please refer to “Business – Information Technologies and Infrastructure” in this document for more details. Moreover, we are one of the first movers in China to develop and offer smart classroom solutions, which business has experienced a rapid growth in the Track Record Period, and is expect to continue to develop, especially in the third- and lower-tier cities, riding on recent favorable policies to promote digital equity and improve balanced education opportunities across the country.

### *Recent Communications with Regulatory Authorities*

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

On August 11, 2021, we participated in an interview with a responsible officer from the After-school Tutoring Supervision Division, formerly known as the Education Supervision Division, under the Department of Education of Guangdong Province. We were advised, among other things, that (i) we are not an after-school tutoring service provider whose operations are directly regulated by the Opinions, therefore, according to the Regulations on the Implementation of the Non-state Education Promotion Law of the PRC (the “**Non-state Education Promotion Regulation**”) (《中華人民共和國民辦教育促進法實施條例》), the Opinion on the Regulation of the Development of After-school Training Institutions (the “**Opinion on the Development of After-school Training Institutions**”) (《國務院辦公廳關於規範校外培訓機構發展的意見》) and the Opinions, our businesses are not required to obtain the permit to commence (辦學許可); (ii) the provision of digital educational resources in the form of pre-recorded video does not constitute a form of after-school tutoring business strictly regulated by the Opinions and is permitted under current regulatory requirements; and the provision of online educational resources with quality without separately charging fees and the promotion of the development in educational resources and education equality are encouraged by the Opinions; and (iii) for the live-streaming classes provided during the Track Record Period prior to the issuance of the Opinions, we have completed the requisite filing procedures for its operations, including obtaining the Certificate of After-school Online Tutoring (《廣東省校外線上培訓備案證明》) issued by the Department of Education of Guangdong Province.

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

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

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Based on the third interview conducted on November 1, 2021, we believe, and the Joint Sponsors concur, that the confirmations we received from the responsible officer during the interviews on August 11 and October 9, 2021, respectively, are valid, sufficient and properly authorized, and could be relied on to guide our business operations going forward. For more details about recent interviews with regulatory authorities, please refer to “Business – Recent Developments – Recent Communications with Regulatory Authorities.”

Our PRC legal advisor and our Directors are of the view, and the Joint Sponsors concur, that the likelihood of those confirmations being challenged by a higher level authority is relatively low. In addition, based on these interviews, we were also advised by our PRC Legal Advisor that (i) our sale of smart learning devices and the provision of pre-recorded video resources through such smart learning devices do not constitute a form of after-school tutoring business strictly regulated by the Opinions and the follow-up policies and hence would not be regarded as an indirect circumvention of the Opinions as confirmed by the interviews, (ii) the Company’s current businesses are not considered as the online tutoring operations strictly regulated by the Opinions, and it is not required to obtain additional permits or licenses for the Company’s existing operations going forward, and (iii) in terms of the previous business operations during the Track Record Period and prior to the promulgation of the Opinions, it has not been found in violation of the relevant laws and regulations.

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

For more details about the recent regulatory change, our responses, as well as more details about advices from our PRC Legal Advisor on related matters please refer to “Regulatory Overview” and “Business – Recent Developments – Recent Communications with Regulatory Authorities” sections. Please also refer to “Risk Factors – Risks Relating to Our Industry and Business – PRC education industry is currently subject to evolving regulatory and policy changes. Uncertainties with respect to the PRC legal system, especially the education related laws and regulations, could have a material adverse effect on us and limit the legal protection available to [REDACTED].”

### Rules Relating to Cybersecurity

On December 28, 2021, 13 PRC regulatory agencies including the Cyberspace Administration of China (the “CAC”) published the Cybersecurity Review Measures (《網絡安全審查辦法》(2021)) (the “**Cybersecurity Review Measures (2021)**”), which became effective on February 15, 2022 and supersede the Measures for Cybersecurity Review (《網絡安全審查辦法》) promulgated on April 13, 2020. The Cybersecurity Review Measures (2021) provides that a critical information infrastructure operator (the “**CIIO**”) purchasing network products and services, and network platform operators carrying out data processing activities which affect or may affect national security, must apply for cybersecurity review. The

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Cybersecurity Review Measures (2021) also provides that a network platform operator with more than one million users’ personal information aiming to list abroad must apply for cybersecurity review. As of the date of the Latest Practicable Date, no relevant authority has published any detailed rules for identification of the critical information infrastructures, and to our best knowledge, we had not received any notification from the Protection Authorities about being identified as a CIIO.

On November 14, 2021, the CAC publicly solicited opinions on the Regulations on the Administration of Cyber Data Security (Draft for Comments) (網絡數據安全管理條例(徵求意見稿)) (the “**Draft Data Security Regulations**”, together with the Cybersecurity Review Measures (2021), the “**Cybersecurity Regulations**”), which applies to activities relating to the use of networks to carry out data processing activities within the territory of the PRC. The Draft Data Security Regulations also provides that a data processor who processes more than one million users’ personal information aiming to list abroad or a data processor who seeks to complete a listing in Hong Kong which affects or may affect national security is required to apply for cybersecurity review pursuant to relevant rules and regulations. However, the Draft Cyber Data Security Regulations does not provide the standard to determine the circumstances that would be determined to “affect or may affect national security.”

As of the date of this document, we had not been involved in any investigation on cybersecurity review made by the CAC, neither had we received any inquiry, notice, warning, or sanction in such respect. And we had not been subject to any material administrative penalties, mandatory rectifications, or other sanctions by any competent regulatory authorities in relation to cybersecurity and data protection, nor had there been material cybersecurity and data protection incidents or infringement upon any third parties, or other legal proceedings, administrative or governmental proceedings, pending or, to the best of our knowledge, threatened against or relating to us, and according to the consultation to competent authority, we are not required to apply for cybersecurity review for the proposed [REDACTED]. Please refer to “Regulatory Overview – Laws and regulations relating to cyber security, data security and personal information protection” for more details.

### Rules Relating to Overseas Listing

On December 24, 2021, the CSRC issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) (the “**Draft Overseas Listing Administration Provisions**”) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (the “**Draft Overseas Listing Filing Measures**,” together with the Draft Overseas Listing Administration Provisions, the “**Draft Regulations on Listing**”), which are open for public comments until January 23, 2022.

The Draft Overseas Listing Administration Provisions, if adopted in its current form, will comprehensively improve and reform the existing regulatory regime for overseas offering and listing of PRC domestic companies’ securities, and will regulate both direct and indirect overseas offering and listing of PRC domestic companies’ securities by adopting a filing-based regulatory regime. According to the draft regulations, PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to fulfill the filing procedure with the CSRC and report relevant information. The Draft Overseas Listing Administration Provisions also stipulate certain circumstances where overseas listing should not be allowed. In particular, overseas offerings and listings that are prohibited by specific laws and regulations, constitute threat to or endanger national security, involve material ownership disputes, the PRC domestic companies, their controlling shareholder or actual controller involving in certain criminal offence, or directors, supervisors and senior management of the issuer involving in certain criminal offence or administrative penalties, among other circumstances, are explicitly forbidden.

As of the Latest Practicable Date, we had not received any inquiry, notice, warning, or sanctions regarding this [REDACTED] or our corporate structure from CSRC or any other PRC government authorities with respect to the filing requirement under the new regulatory regime. To our best knowledge, none of the circumstances that would prohibit PRC domestic companies from conducting overseas listing and offering under the Draft Regulations on Listing exists for us. Please refer to “Regulatory Overview – Laws and regulations relating to overseas listing” for more details.

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### Rules Relating to Foreign Investment Restrictions

On May 1, 2022, the State Council amended the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (外商投資電信企業管理規定) (the “**2022 FITE Regulations**”). The 2022 FITE Regulations, among others, no longer requires the main foreign investor who invests in a value-added telecommunications business in the PRC to possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations. The 2022 FITE Regulations prescribes that foreign investors are not allowed to hold more than 50% of the equity interests of a company engaged in value-added telecommunications business, except as otherwise stipulated by the state, and that a foreign-invested enterprise must be approved by the MIIT to engage in value-added telecommunications business. As of the Latest Practicable Date, no applicable PRC laws, regulations or rules had provided a clear guidance or interpretation regarding the foregoing amendment in the 2022 FITE Regulations and the interpretation and enforcement of the foregoing amendment in the 2022 FITE Regulations remains uncertain in practice. We will closely monitor relevant regulatory development in connection with the 2022 FITE Regulations.

On June 16, 2022, with the assistance of our PRC legal advisor, we conducted a phone inquiry with the MIIT through service hotline (the “**June 16 Interview**”) and relevant MIIT staff confirmed that, which our PRC legal advisor concurs, based on the current regulatory review practice, (i) while the 2022 FITE Regulations have come into effect, which no longer requires the main foreign investor who invests in a value-added telecommunications business in the PRC to possess prior experience in operating value-added telecommunications businesses and a proven track record of business operation, the foreign investors are still prohibited from holding more than 50% of the equity interests of a company engaged in value-added telecommunications business, and thus the wholly-owned foreign investment entity would still not be granted an ICP License, (ii) there is no detailed explanation or guidelines on the 2022 FITE Regulations available for the foreign-invested enterprises without prior experience in operating value-added telecommunications businesses and a proven track record of business operation and in which foreign investor holds 50% or less equity interests (the “**New Applicant**”) to apply an ICP License at current stage and (iii) the application by a New Applicant for ICP Licenses is still subject to thorough examination and discretion by the MIIT and will not be approved in practice until detailed explanation or guidelines are issued.

Based on the confirmation from the June 16 Interview and the facts that, (i) the above confirmation from the June 16 Interview is consistent with the confirmation we received from the interview with the MIIT on April 13, 2021, (ii) as of the Latest Practicable Date, we had already obtained the value-added telecommunication business operating license, (iii) the 2022 FITE Regulations does not raise any additional requirements or restrictions on enterprises who have already obtained the value-added telecommunication business operating license before such amendment and (iv) as of the date of this Document, we have not received any inquiry, notice, sanction or other concern from any authorities regarding the Contractual Arrangements and VIE structure, and save for the uncertainties regarding interpretation and implementation of the 2022 FITE Regulations as disclosed in this document, our PRC Legal Advisor is of the view that the above changes in laws and regulations in relation to value-added telecommunication services will not affect the validity and the legality of our value-added telecommunication business operating license and will not have a material adverse effect on our operations in the PRC in effect as of the Latest Practicable Date. Based on the foregoing analysis, our Directors, with the advice of our PRC Legal Advisor, are of the view that the 2022 FITE Regulations will not have a material adverse effect on our business and operations. Please refer to “Risk Factors – Risks Relating to Contractual Arrangements – Our current corporate structure and business operations may be affected by the Foreign Investment Law” and “Regulatory Overview – Laws and regulations relating to foreign investment – Regulations relating to foreign investment restrictions” for more details.

### *Industry Developments*

According to Frost & Sullivan, it is noticed that almost all after-school tutoring service providers who previously offered live-streaming classes had discontinued such business shortly after the Opinions were released. Nevertheless, the needs of students and parents for high-quality after-school education content remain strong. Encouraged by recent government’s initiatives to strengthen the offering of free online education content, it is expected that there will be more education content provided in the form of pre-recorded video resources or other new forms or new content distribution channels available in the market for the students in the near future. It is more likely that these entities may seek collaboration with existing hardware manufacturers, instead of relying on their in-house research and development efforts, to offer



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educational resource in the forms permitted by the relevant laws and regulations in the future. On the other hand, many existing hardware manufacturers lack the experience and expertise in developing educational resources by themselves, who usually source educational content from third parties, including us. As such, we believe our competitive advantages in developing high quality smart learning devices with digital educational resources have well positioned us to capture the market opportunities in the new education regulatory regime.

Based on (i) the anticipated new competitive landscape as mentioned in the previous paragraph, (ii) the above-mentioned industry data in relation to China's smart learning device service market which is proved to be broadly imbalanced and underserved, (iii) the above-stated analysis that there is no material adverse impacts on our business and financial performance due to the discontinuity of live-streaming classes, and (iv) the fact that our operations have been stable after the Opinions were released, our Directors are of the view that the market demands and popularity of our smart learning devices will remain stable going forward.

### IMPACTS OF THE COVID-19 OUTBREAK

In late 2019, an outbreak of respiratory illness caused by a novel coronavirus, or COVID-19, was quickly spreading around the world, including in China. The new strain of coronavirus is considered highly contagious and may pose a serious public health threat.

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

Moreover, subject to various travel restrictions imposed by local governments in an effort to curb the spread of the COVID-19 pandemic, logistic services to deliver our products to customers were temporarily compromised in February and March 2020, especially in cities that were severely affected by the pandemic, such as Wuhan. The logistic services all been resumed to normal in the third quarter of 2020. To help our distributors to fight against the pandemic, we temporarily launched a number of policies in favor of our distributors, including extending the period for repair and maintenance services for a period of one to three months, and giving away free gifts to motivate purchasers. Total monetary value of the free gifts was less than RMB28,100, which we believe is insignificant and had no material impact on our financial performance.

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

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

In addition, in 2021, we have experienced a temporary global shortage of certain key raw materials, such as integrated circuits and display screens. The shortage was primarily caused by the COVID-19 outbreak since early 2020 which materially interrupted the production activities globally, in particular, in Taiwan, Japan, Korea and the United States where the major circuit manufacturers are located. On other hand, market demands for laptops and desktop computers increased considerably during the COVID-19 pandemic, which further deteriorated the situation. Such temporary shortage caused an increase in raw material costs, which in turn, affected our net profit in the relevant periods. During the period from January 1, 2022 to the Latest Practicable Date, there were resurgences of COVID-19 outbreak, including the COVID-19 Delta and Omicron variant cases, from time to time in multiple cities in China, and the local governments intensified certain quarantine, import clearance and other restrictive measures. As a result, we experienced a slowdown in production and certain delays in the transportation of our raw materials from January 2022 to April 2022. As certain suppliers are



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located in Shenzhen, Dongguan and areas outside China, the production and logistics arrangements of our raw materials, such as integrated circuits, display screens and metal shells, were halted by various measures implemented by the local governments to alleviate the spread of the outbreaks. As of the Latest Practicable Date, the supply of our raw materials and our manufacturing operations have resumed to normal and we have implemented strategic measures to minimize the impact by the resurgence, see “Business – Impacts of COVID-19 Outbreak” for more details. In addition, we also experienced certain delays in the transportation of our products and witnessed temporary closure of certain offline stores operated by our distributors in those affected areas due to the intensified COVID-19 pandemic control restrictions. As a result, the delivery schedule for certain orders were delayed, and some of our distributors discussed with us and delayed their orders during the period from January 2022 to April 2022. As of the Latest Practicable Date, the transportation and delivery of our products have resumed to normal. During the period from January 1, 2022 to the Latest Practicable Date, the pricing of our products was not impacted by the resurgences of COVID-19 outbreak.

During the period from August 2021 to December 2021 and the period from January 2022 to April 2022, we noticed that certain of our distributors cancelled purchase orders from us. The aggregate amount, either in terms of device unit or the gross sales amount, is insignificant and would not have an adverse impact on our overall business and financial performance. To our best knowledge and after due inquiry, such cancellation was mainly due to the temporary delay in delivering certain models of the smart learning devices resulting from the shortage of certain raw materials, which caused the changes in customer demands and the relevant distributors decided to amend their purchases to meet the changing needs. Please also refer to “Business – Impacts of COVID-19 Outbreak” and “Risk Factors – Risks Relating to Our Business and Industry – Unexpected disruptions or delays in raw material supplies or disputes with our suppliers may cause disruptions and delays in our production, subject us to additional costs” for more details.

The abovementioned analysis is for illustrative purpose only and actual impact caused by the COVID-19 outbreak will depend on its subsequent development. Our Directors will continue to assess the impacts of the COVID-19 on the business and financial performance of our Group and will closely monitor the risks and uncertainties arising thereof. See “Business – Impacts of COVID-19 Outbreak” for a more detailed discussion of the impacts of the COVID-19 on us.