You should carefully consider all of the information set out in this document before making an [**REDACTED**] *in the Shares, including the risks and uncertainties described below in respect of our business and our industry and the* [**REDACTED**]. *You should pay particular attention to the fact that we are a company incorporated in the Cayman Islands and that our principal operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. Our business could be affected materially and adversely by any of these risks.*

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

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 investors.

Our business and operations are primarily conducted in China and are governed by PRC laws and regulations. In addition, our offshore holding companies and certain transactions between them may be subject to various PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have limited weight as precedents. The PRC legal system continues to evolve rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies.

In addition, in recent years, the PRC government announced a series of new policies which imposed stricter standards with respect to online and offline education and tutoring businesses, mainly for the purpose of regulating the operations of after-school online and offline tutoring entities and further implementing the "quality education." In particular, 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. On July 24, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of State Council issued the Opinions on Further Easing the Burden of Excessive Homework and After-school Tutoring for Students Undergoing Compulsory Education (the "Opinions") (《關於進一步減輕義務教育階段學生作業負擔和校外培訓負擔的意見》). The Opinions aim to further regulate after-school tutoring activities (including both online and offline tutoring) and effectively ease the burden of excessive homework and after-school tutoring for students at compulsory education stage. The Opinions provides a number of restrictive measures regulating the institutions engaging in online and offline tutoring business. Please refer to the section headed "Regulatory Overview" for details.

In response to the recent regulatory changes, we have reviewed our business operations and discontinued to offer any live streaming classes and terminated the business plan in connection with selected paid courses. Although we assess such adjustments do not have a material adverse impact on our business and financial performance, we cannot assure you that it will be the same case if the education regulation regime in China continues to evolve significantly.

Moreover, 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, when and how those detailed rules will be implemented, and how such new regulations will affect our industry and our business. If the PRC government continues to impose stricter regulations on areas we are involved in, we could face higher costs in order to comply with those regulations, which could impact our profitability. Please also refer to "– Risks Relating to Our Business and Industry – Our development strategies may not achieve the expected goals in the near term, or at all."

Moreover, we cannot predict the effect of future developments in the PRC legal system. Such unpredictability towards our contractual, property and procedural rights could adversely affect our business and impede our ability to continue our operations. For example, it was recently reported that the PRC government may consider to propose a data tax on technology companies. It is substantially uncertain at current stage whether and when such data tax law will be published, and how the data tax may be structured, if any, including the possible tax rates, the scope of its application, and the entities to be subject to the data tax. As such, it is also impossible at current stage to estimate the impacts on us brought by the potential data tax law. Further, the PRC legal system is based partly on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of any violation of these policies and rules until after such violation has occurred. Furthermore, the legal protections available to us and our investors under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and the diversion of resources and management attention.

Our business depends heavily on the strength of our brand awareness and reputation, and end users' recognition and their trust in our smart learning devices may be materially and adversely affected if we fail to maintain and enhance our brand and reputation.

Brand image is a key factor in purchase decisions. We believe our success depends substantially on the popularity of our "Readboy" brand that we use for marketing and promotion, as well as on our reputation in connection with our product offerings. Our Readboy brand was recognized as a reputable technology-powered education brand in China, including the Parents' Most Trusted Education Brand for Kids in 2018 and the Technical Leading Education Brand in 2018 both recognized by Tencent News Annual Education Event, the Most Trusted Education Brand in 2019 awarded by Xinhua Net Education Forum. Therefore, maintaining and enhancing the recognition and image of our brand is critical to our ability to differentiate our services and products to compete effectively. Our brand and reputation may be harmed by product defects, ineffective customer services, product liability claims, consumer complaints, intellectual property infringement or negative publicity or media reports. Any negative claim against us, even if meritless or unsuccessful, may divert our management's attention and other resources from day-to-day business operation, which may adversely affect our business, results of operations and financial condition. Negative media coverage regarding the safety, price-level or quality of our products, and the resulting negative publicity, may materially and adversely affect the level of consumer recognition of, and trust in, us and our products. In addition, adverse publicity about any regulatory or legal action against us may damage our reputation and brand image, undermine our end users' confidence in us and reduce long-term demand for our services or products, even if the regulatory or legal action is unfounded or immaterial to our operations.

Furthermore, as we continue to grow in size, expand our product offerings, extend the geographic reach of our distribution network, maintaining product quality and consistency may be more difficult and we cannot assure you that we can maintain the end users' confidence in our brand name. If end users perceive or experience a reduction in the quality of our products, or consider in any way that we fail to deliver a consistently high quality products, our brand value could suffer, which could have a material and adverse effect on our business.

We have registered the Chinese and English characters as well as the logos of our Readboy trademark under several classes in China. However, we may from time to time be involved in lawsuits brought against us by third parties for trademark infringement. We may have to incur significant expenses and divert substantial management time and resources to respond to those cases. Such legal proceedings may materially and adversely affect our brand image and damage our brand value, regardless of their merits. We consider our trademarks and brand name to be material to our business. If we are unable to adequately protect these intellectual property rights, we may lose these rights, our brand image may be harmed, and our competitive position and business may suffer.

Moreover, under our agreements with our offline and online distributors, we authorized these parties to display our brand name or trademarks when marketing our products. Despite the scope of authorization as detailed in the agreements, there is no assurance that our distributors will not infringe our trademarks or any other intellectual property rights. Any unauthorized use of our intellectual property rights will materially and adversely harm our reputation and brand image, thereby causing a decline in our financial performance, reduction in our market share as well as an increase in the amount of resources we need to devote to detection and prosecution of unauthorized use of our trademarks or imitation of our products. See "– We may not be able to adequately protect our intellectual property, which could adversely affect our business and operations" below.

We face intense competition, which could divert students to our competitors, lead to pricing pressure and loss of market shares, and significantly reduce our results of operation.

The smart learning device service market in China is intensely competitive, and we expect competition in this sector to persist and intensify. Some of our current or future competitors may have longer operating histories, a larger group of educational resource development crew, greater brand recognition, or greater financial, technical or marketing resources than we do. We compete with these smart learning device service providers across a range of factors, including, among others, product quality, scope of digital educational resources, technology infrastructure and data analytics capabilities, students' learning experience, brand recognition and scope of the device offerings. Moreover, as the demand for smart learning device services increases, we expect more new comers will participate in the industry, resulting in more intense competition. These competitors may adopt similar product and marketing approaches, with different pricing and service packages that may have greater appeal than our offerings. We believe one of our current competitive advantages is successful applications of advanced technologies and strong AI, big-data and cloud related capabilities in our product research and development processes. However, such technologies are subject to rapid evolution and commoditization. The constant and rapid technological developments and advancements may render our product models in the common forms and with the common functionalities that are generally available today outdated or obsolete, and merging products with new functions may substitute existing product models or products quickly. If we are not able to catch up with the latest and the most advanced technologies in a timely manner while maintaining sufficient and competent technical staff, we may lose our existing technological competitiveness to our competitors and the attractiveness of our products will be materially reduced. In addition, we believe we are facing a changing competitive landscape after the Opinions were released. 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. 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, such as pre-recorded video resources, available in the market for the students in the future. It is more likely that the tutoring service providers may seek collaboration with existing hardware manufacturers, instead of relying on their in-house research and development efforts, to offer 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, who usually source educational content from third parties, including us. We cannot assure you that we will maintain our competitive advantages in developing high quality smart learning devices with digital educational resources and compete effectively with new or existing market players in both device manufacturing and education resource development, respectively. Lastly, some of our competitors may have more resources than we do and may be able to devote greater resources than we can to the development and promotion of their services and respond more quickly than we can to the changes in student preferences, market needs or new technologies. If we reduce selling prices or increase spending in response to competition in order to retain or attract students and high quality educational resource development crew, or pursue new market opportunities, our net revenue may decrease and our costs and expenses may increase as a result of such actions which may adversely affect our operating margins. If we are unable to successfully compete for students, maintain or increase our selling prices, attract and retain competent educational resource development crew or other key research and technology personnel, maintain our competitiveness in terms of the quality of our smart learning devices in a cost-effective manner, our results of operations may be materially and adversely affected.

We may not be able to launch and diversify new products and educational resources to adapt to changing customer demands in a timely manner.

We have consistently devoted our efforts to developing new products in order to not only adapt to evolving learning needs and preferences, but also influence market trends with innovation. We may develop new brands to explore more market opportunities. In light of the highly competitive and volatile environment, our future growth depends on our ability to continue to introduce product and brand portfolio that are welcomed by the market.

Introducing new products or developing new digital educational resources involve significant development and research costs on one hand, and inherent risks on the other, such as over-estimated market demand, unsatisfied product quality, unsuccessful pricing strategy. Failure to successfully diversify and expand our product and brand portfolio to adapt to the constantly changing learning needs and preferences and market trends may cause our results of operations to decrease as we will not be able to recoup the associated costs, may jeopardize our competitive advantage and market share, and may result in continued reliance on our existing products and brands. Any of these events could materially and adversely affect our business, financial condition, results of operations and prospects.

We depend on our dedicated and capable educational resource research and development crew and other research staff, and if we are not able to continue to hire, train and retain such qualified staff, we may not be able to maintain consistent quality of our courseware, pre-recorded video resources and other digital educational resources. As such, our brand, business and operating results may be materially and adversely affected.

Our educational resource research and development crew and other research staff, are critical to maintaining the quality of our courseware, pre-recorded video resources and other digital educational resources, which in turn, is essential for maintaining our brand and reputation.

It is critical for us to continue to attract and retain qualified educational resource research and development crew and other research staff who have a strong command of the subject areas and meet our qualification. The number of such personnel in China with the necessary experience and proficiency in developing digital educational resources that meet our needs and standards is limited and we must provide competitive compensation packages to attract and retain such qualified personnel. In addition, criteria such as commitment and dedication are difficult to ascertain during the recruitment process, in particular as we continue to expand and acquire educational resource research and development crew to further complete and upgrade our content offering. We must also provide continuous training to them so that they can stay up to date with changes in student demands, admissions and assessment tests, admissions standards, curriculum, and other key trends necessary to effectively proceed with the development of their respective courses. We may not be able to hire, train and retain enough qualified educational resource research and development crew to keep pace with our anticipated growth while maintaining consistent quality across our services in different geographic locations. In addition, PRC laws and regulations require teachers in kindergartens and primary and secondary schools to obtain the teaching qualification. The Opinion on the Regulation of 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》), or the State Council Circular 80 and the Implementation Opinion on Regulating Online After-school Tutoring Activities (《關於規範校外線上培訓的實施意見》), or the Online Tutoring Opinion further require teachers in after-school training schools to apply for teaching qualifications corresponding to the academic subjects they teach, if they teach certain academic subjects in the primary and secondary education stage. Under the new PRC educational regime, we have discontinued to offer, and will not offer in the future, any live streaming classes or other forms of courses that may be deemed as after-school tutoring operations, and as such, our educational research and development crew will not engage in any after-school teaching activities and are not required to obtain the requisite teaching qualification. However, there is no assurance in the future that any of our crew may be required to apply for and obtain permits or licenses due to the change of laws and regulations or other reasons beyond our control. The failure of us and/or any of the relevant staff may subject us to administrative penalties, such as rectification of such non-compliance promptly. Shortages of qualified educational resource development crew or decreases in the quality of our instruction, whether actual or perceived, in one or more of our markets may have a material and adverse effect on our business. Moreover, despite our continuous efforts in developing pre-recorded video resources and other formats of various educational resources, we cannot assure you that the formats in which we digitalize our educational resources will always be accepted by the students and our products would remain popular among them. If the students find other formats of digital educational resources provided by our competitors are more appealing, we may lose our market position and market share as a result. See "Regulatory Overview – PRC Regulatory Overview – Laws and regulations relating to employment" for more information.

Moreover, we rely on our Readboy Institute of Education Technology to continually research, develop and upgrade our digital educational resources. National standard curriculum textbooks, admissions and assessment tests undergo continuous change in China, in terms of the focuses of subjects and questions tested, the format of the tests and the manner in which the tests are administered. These changes require our Readboy Institute of Education Technology to continually update and enhance our digital educational resources. If we fail to acquire or attract high quality research staff, or such staff fail to track and respond to the changing market trends in a timely and cost-effective manner, our digital educational resource offering will become less attractive, which may materially and adversely affect our reputation and ability to continue to attract end users.

Our development strategies may not achieve the expected goals in the near term, or at all.

We focus on the long-term development and interests of us and the participants in our product and service offerings. We from time to time develop and adjust our business strategies in order to adapt into the competitive industry and maintain our market position. However, our strategies may not achieve the expected goals as planned. For example, we will make strategic investments or acquisitions which we believe are supplementary to our existing operations, and/or enable us to better access and control the downstream or upstream of our value chain. However, our newly invested businesses may have lower or negative margins, and are in the early stages of exploring, establishing and optimizing their business models. We believe these investments and initiatives are crucial to our success and future growth, but they may have an effect of increasing our costs and lowering our margins and profit, and this effect may be significant in the short term and potentially over a prolonged period. Acquired businesses that are loss-making may continue to sustain losses and may not become profitable in the near future or at all. The performance of our current and future equity investees and investment areas may also adversely affect our net income. There can be no assurance that we will be able to grow our acquired or invested businesses, or realize returns, benefits of synergies and growth opportunities we expect in connection with these investments and acquisitions.

In addition, we may consider to explore new business initiatives from time to time, the development of which may not always achieve our initial expectations. For example, we used to contemplate to launch selected paid courses as a supplement to our business operations. Nevertheless, considering that after-school tutoring operations are expected to be subject to more stringent regulations resulting from the recent change in the PRC education regulatory regime, we determined to terminate the business plan in connection with selected paid courses. Although such decision does not have a material adverse impact on our business and financial performance, we cannot assure you that we may not encounter similar situations in the future when we are in the process of developing other new business initiatives. Even if we are able to launch a new business initiative in the future, there is no assurance that it will be accepted by the market and achieve our initial expectations, such as driving additional revenue streams or attract more end users. Moreover, to support our future development, we plan to newly recruit a significant number of IT technical staff and educational resource development crew in the near future, which may, in a short term, increase our operating costs and expenses significantly. For more details about our recruitment plans and the estimated salaries we expect to incur, see "Future Plans and [**REDACTED**]." However, we cannot assure you that we are always able to identify and hire the desired competent IT staff and/or educational resource development crew on commercially reasonable terms as we are facing intense competition in our industry. If we cannot execute our recruitment plans as scheduled, we may fail to launch new and upgraded smart learning devices with high quality digital educational resources, and may lose attractiveness to end users, experience operating inefficiency and incur high operating costs and expenses. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may not be able to successfully expand and strengthen our distribution network.

Our growth has been largely attributable to our ability to establish and maintain a nationwide offline distribution network, operations of which have been a critical factor in driving our business growth and achieving strong results. As of the Latest Practicable Date, our offline distribution network comprised of 4,608 points of sales located in 344 county level or above cities covering 31 provinces and autonomous administrative regions, including municipalities, across China. Our offline distributors not only market and sell our products, but also deliver customer services and communications. Currently, we also primarily rely on our offline distributors to approach potential school customers for the sales of our smart classroom solutions. To further increase our market share, we expect to continue to expand our geographic coverage and deepen our market penetration. To this end, we intend to further strengthen the offline distribution network by retaining exiting distributors that possess strong local resources and marketing and sales capacity. We may also identify and engage more quality offline distributors, when appropriate candidate is available, to increase the number of our points of sales. We are also in the process of reforming our offline distribution network to achieve the optimal single-layer model at prefecture-level cities, see "Business – Our Distribution Network – Offline Distribution Network Summary" for more details. Moreover, we also engage a limited number of online distributors to facilitate our online sales. We expect to the number of our online distributors to increase as our online operations continue to develop.

However, we cannot assure you that we will be able to successfully contract new offline distributors or open new points of sales as scheduled or new online distributors with online resources. We may not be able to contract distributors with industrial experience and managerial skills, or to educate and train our distributors and their staff. Furthermore, if we are unable to properly plan our network expansion, an increasing number of points of sales in one certain region may cause cannibalization and unhealthy competition. In addition, our distribution network structural reform requires the cooperation from our offline distributors, whose designated distribution regions may be subject to re-allocation. If we fail to fully communicate with them or they refuse to collaborate, we will not be able to enhance our offline distribution network as scheduled and we may lose potential market opportunities, thus, our future growth and profitability could be materially and adversely affected.

In addition, the further expansion of our distribution network will impose increasing pressure on our managerial, manufacturing, logistics, financial, operational and other resources. We may not be able to effectively integrate any new offline or online stores into our existing operations. If we are unable to effectively manage our expansion or control rising costs associated with our expansion, our growth potential and profitability could be materially and adversely affected.

Our nationwide offline distribution network consists primarily of points of sales that are controlled by independent third-party distributors. Our results of operations are significantly subject to the performance of such points of sales. We may not be able to effectively control and monitor their operations or maintain our current relationship with the distributors.

As of December 31, 2019, 2020 and 2021, we had maintained 58, 86 and 123 third-party offline distributors, respectively, who controlled 2,905, 3,386 and 4,302 points of sales. During the Track Record Period, revenue derived from these offline distributors represented approximately 91.7%, 85.0% and 85.5% of total revenue in 2019, 2020 and 2021, respectively. As of the Latest Practicable Date, we had maintained 129 third-party offline distributors who controlled a total of 4,608 points of sales. Therefore, our results of operations are significantly subject to the performance of the points of sales operated by our distributors, which in turn, reflects the marketing ability and management skills of our distributors. Poor performing points of sales, if the total number of which is significant, will materially and adversely affect our revenue and profitability. In addition, points of sales operated by our distributor may be temporarily closed from time to time as a result of the implementation of COVID-19 pandemic control restrictions by the local governments. Such temporary closure of points of sales, if the total number of which is significant, will materially and adversely affect our revenue and profitability. Under extreme circumstances, we may consider to terminate the distribution arrangements if it fails to meet the performance targets for a prolonged period of time. If one of our distributors goes bankrupt, there may be negative impact on whether we are able to recover our receivables, and closure of points of sales may also have negative impact on our brand image.

On the other hand, our offline distributors independently manage their business, which includes the monitoring on the performance of daily operation of the points of sales controlled by themselves and their respective sub-distributors. Therefore, the success and quality of such points of sales are ultimately dependent on the offline distributors themselves. We are unable to completely control the action of our offline distributors. Our contractual rights and remedies under the relevant agreements are considerably limited, and obtaining such remedies or filing a lawsuit may be costly. Although we have developed a robust management system to train, supervise and manage our offline distributors, we cannot assure you that our monitoring may be effective. For example, there is no assurance that our offline distributors will always follow our protocols and standards when delivering the services and products to end users. If the services or products delivered by our offline distributors fail to meet the standards anticipated by the end users, our reputation, business and results of operations may be adversely affected. If our current measures to monitor and manage our offline distributors are not adequate and effective enough for us to identify any non-compliance of our offline distributors in a timely manner, our reputation may be adversely affected. We also rely on offline distributors to implement our strategic initiatives and marketing programs. If any of such distributors does not comply with our policies or operating procedures, such as unilaterally engaging in promotions and discounts without our consent, or offering inferior consumer services, our reputation and brand image may be negatively affected. Furthermore, we currently use our information management middle-platform, which includes the ERP system, end-to-end service system, material management system, order management and other modules, to track and monitor the sales data of each points of sales. Although we have endeavored to enhance the accuracy and security of our IT systems, the effectiveness of our data collection and monitoring may be compromised if our distributors knowingly or mistakenly tamper with their data inputs.

There may be a series of litigation risks relating to our offline distributors, including but not limited to consumer complaints, personal injuries, litigations initiated by employees due to improper termination of contracts, and so on. Although we do not directly undertake costs incurred in each of the above types of proceedings, these complaints may increase the costs of such distributors, have a negative impact on their profitability, and limit the funds available for their business operations, or affect their ability to renew the arrangements with us, which will further adversely affect our business operations and results of operations, and may negatively impact our brand image.

Although we have maintained stable relationships with the majority of our distributors, we cannot assure you that all of they will maintain their business relationships with us by renewing the existing agreements upon their expiry on terms acceptable to us, or at all. If any of our distributors terminates or does not renew its agreement with us, we may not be able to replace such distributors with a new third party in a timely manner, on terms acceptable to us, or at all. Further, we cannot assure you that our distributors will continue to purchase from us at historical levels in the future. In the event that a significant number of our distributors substantially reduce their volume of purchases or fail to fulfill their obligations under the relevant arrangements, or if we lose a significant number of our distributors and are unable to effectively replace them in a timely fashion, our business, financial condition and results of operations could be materially and adversely affected.

Our future prospect is subject to the development of population structure in China.

The development of China's education industry is highly dependent on the primary and secondary school population, which in turn, is affected by the total population of China and the population structure. Despite the fact that the proportion of aging population over total population in China continued to increase in the past decade, the total primary and secondary school population remains relatively high in China. 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 all 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, the overall education market is still underserved mainly due to the limited number of industry players and presents remarkable opportunities. In addition, the continuous implementation of the "two-child policy" in 2016 and the recently announced "three-child policy" in 2021 by the central government would also boost the long-term population growth and improve the country's population structure. As such, we believe our current business operations and prospects will remain promising. However, in 2021, China's birth rate remained at a relatively low level. If the K-12 student population does not meet the expectation and experiences a significant decrease in the future, our business operations may be materially adversely affected.

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.

We currently operate one production and assembly facility located in Zhongshan, Guangdong Province. Natural or man-made disasters, such as adverse weather, fires, technical or mechanical difficulties, storms, explosions, earthquakes, strikes, acts of terrorism, wars and outbreaks of epidemics, or other unexpected interruptions, including prolonged power or water suspension, may cause significant damage or delay to our production and assembly facility or that of third party manufacturer we engage, which could be costly and time-consuming to reinstate and could cause significant disruptions to our operations. We may incur additional costs and may experience a disruption in the supply of products until the affected production and assembly facility becomes available and operational.

Additionally, we rely on the timely supply of various raw material in order to carry out our production and assembly facility as scheduled. Any delays or disruptions in raw material supplies from our suppliers, may have a material and adverse impact on our ability to deliver an adequate number of products to the market, causing us to lose business opportunities. Moreover, we may encounter disputes with our suppliers from time to time, including but not limited to the disagreement on quality, quantity or other matters. Such disputes, if cannot be solved in a sound and timely manner, may cause a delay in the supply of the relevant raw materials, or, in severe situation, a termination of the relevant agreement. Any of the above-mentioned natural or man-made disasters or other unanticipated events could also disrupt the operations of our suppliers, or delay the relevant transportation, which in turn, may further impede our ability to manufacture and deliver our products in a timely manner. For instance, we experienced an increase in raw material costs in 2020 resulting from the temporary shortage of certain key raw materials during the COVID-19 outbreak. Although we have not experienced any major production disruptions during the Track Record Period and as of the Latest Practicable Date, any similar events in the future could have an adverse impact on our ability to produce sufficient quantities of products. For another instance, regional or global trade wars, such as the Sino-U.S. trade war, will further cast uncertainties on the availability and the prices of the raw materials originated from overseas. In such cases, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Inadequate production capacity could hinder our capabilities to satisfy market demand and growth prospect.

We currently operate one production and assembly facility located in Zhongshan, Guangdong Province. During the Track Record Period, the utilization rate of our facilities for personal student tablets maintained at approximately 88.5%, 88.6% and 87.9% in 2019, 2020 and 2021, respectively. It was in line with the growing sales of such products and reflected the gradual market acceptance of our personal student tablets embedded with high quality digital educational resources. The utilization rate of our facilities for smartwatches declined, on the other hand, decreased from 76.7% in 2019 to 16.4% in 2020. The declines were primarily due to decreased orders, particularly from two major customers of such products who shifted their distribution strategies with respect to such products. The utilization rate of our facilities for smartwatches increased to 30.8% in 2021, primarily due to the improvement in our sales volume resulting from the clearance sales of our old product models and the acceptance of our upgraded smartwatch models.

Currently, we are able to quickly set up two to three additional production and assembly lines without incurring significant investments in equipment and space. Although we have not experienced any material inadequate production capacity in the past, we cannot assure you that our production capacity will always be adequate to meet the market demand for our products, especially during certain period when we experience high demand of particular product models. In addition, as our business grows, we may need to expand our production capacity by various measures including addition of production and assembly lines or construction of new premises. We cannot assure you that our new production and assembly lines or new premises will be ready in time or our production capacity will otherwise be successfully expanded. Failure to expand our production capacity could hinder our capacity to satisfy market demand and growth prospect. Furthermore, if market demand declines in the future, we may not be able to recoup the costs incurred for construction of new premises and maintenance of expanded production capacity. The delay or cancelation of our expansion could also subject us to disputes with various counterparties, including but not limited to, general contractors and sub-contractors, equipment suppliers, financiers and relevant governmental authorities. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Failure to maintain optimal inventory levels could increase our inventory holding costs or cause us to lose sales.

Maintaining optimal inventory levels is critical to our financial health. As of December 31, 2019, 2020 and 2021, the balance of our inventory accounted for approximately 56.1%, 37.9% and 36.5%, respectively, of our total current assets. In 2019, 2020 and 2021, our inventory turnover days were 137 days, 143 days and 130 days, respectively. We are exposed to inventory risks as a result of a variety of factors beyond our control, including changing consumption trends and preferences and launches of competing products. Moreover, for stocking purposes, we generally forecast demand for the products we sell ahead of the actual time of sale. We cannot assure you that we can accurately predict these trends and events and maintain adequate levels of inventory at all times. An unexpected decrease in the market demand for the products we sell could lead to excessive or obsolescent inventory, which in turn may materially and adversely affect our financial condition and results of operations. We assess impairment to inventories at each period end during the Track Record Period, and may make provision to write down our inventories to the net realizable value if the inventories become out-of-season or are damaged or their prices went down and their net realizable value is lower than the costs of the inventories. During the Track Record Period, we did not record any material write-offs against inventories. However, we cannot assure you that we will not experience material write-offs in the future. On the other hand, inventory under-stock may cause us to lose sales and our business, financial condition, results of operations and prospects may also be materially and adversely affected.

Any discontinuation, reduction or delay of any preferential tax treatments and government grants that may be available to us in the future could materially and adversely affect our business, financial condition and results of operations.

We have benefited from preferential tax treatments from the government and government grants during the Track Record Period. One of our subsidiaries, Readboy Technology, is qualified as a high and new technology enterprise and thus was entitled to a preferential tax rate of 15% throughout the Track Record Period. Zhuhai Technology is entitled to an exemption from corporate income tax for the first two years, commencing from the first year that it generates taxable profit, and a deduction of 50% on the corporate income tax rate for the following three years. Therefore, Zhuhai Technology was entitled to the income tax exemption in 2021. As a result of such preferential tax treatments, we enjoyed a tax reduction of RMB8.7 million, RMB12.0 million and RMB23.6 million for 2019, 2020 and 2021, respectively. In addition, we received government grants of RMB11.7 million, RMB4.7 million and RMB7.3 million in 2019, 2020 and 2021, respectively. Such government grants mainly referred to local government subsidies for the purpose of supporting our research and development activities, which are discretionary and non-recurring in nature.

We cannot assure you that we are able to meet the relevant requirements and be re-granted the preferential tax treatments and government grants upon their expiration, or to apply for other preferential tax treatments or government grants. The policies regarding the preferential tax treatments and government grants are subject to change and termination. The government authorities may decide to reduce, eliminate or cancel our tax preferences at any time. Therefore, we cannot assure you of the continued availability of such tax preferences or government grants which we currently enjoy. The discontinuation, reduction or delay of the preferential tax treatments and government grants could adversely affect our financial condition and results of operations.

Our business operations are subject to seasonality.

Our results of operations are affected by seasonal fluctuations in demand for our products, primarily in line with the school opening seasons and the changes in students' purchasing pattern. We typically record year-round highest sales of our smart learning devices during the summer and winter vacations, which run from July to September and January to February of each year, respectively. A significant number of students tend to acquire new learning devices with suitable digital educational resources to get prepared for the upcoming new semesters. In addition, we may also experience seasonal higher sales due to the online promotional events, such as the 11.11 and 618 online shopping festivals led by mainstream e-commerce platforms. Our procurement and manufacturing plans are also budgeted based on such seasonal fluctuations. Accordingly, various aspects of our operations, including sales, production capacity and utilization, working capital and operating cash flow, are exposed to the risks associated with these seasonal fluctuations, and our quarterly or half year results may not reflect our full year results.

If we fail to manage this growth effectively, the success of our business model will be compromised.

Our revenue increased by 9.6% from RMB669.9 million in 2019 to RMB734.0 million in 2020. Over the same period, our net profit increased by 32.5% from RMB69.4 million in 2019 to RMB92.0 million in 2020. Our revenue further increased by 10.8% from RMB734.0 million in 2020 to RMB813.2 million in 2021, while net profit decreased by 10.7% from RMB92.0 million in 2020 to RMB82.1 million in 2021. Without considering the impact of the [**REDACTED**] expenses and changes in fair value of financial liabilities at fair value through profit or loss in connection with the shares we issued to our [**REDACTED**] Investors, our adjusted net profit, a non-HKFRS measure, would have decreased by 16.3% from RMB92.0 million in 2020 to RMB77.0 million in 2021. Our growth in the past has placed, and will continue to place, a significant strain on our demand for more manufacturing staff, educational resource research and development crew, IT support staff, administrative and operating infrastructure, sales and marketing capacities, facilities and other resources. To achieve and maintain our growth, we need to continue to scale up our product offerings, increase our educational resource development professionals and employees of other functions, expand our distribution network, as well as strengthen our technology and infrastructure. We will also be required to refine our operational, financial and management controls and reporting systems and procedures. If we fail to efficiently manage this expansion of our business, our costs and expenses may increase more than we plan and we may not successfully attract a sufficient number of educational resource research and development crew in a cost-effective manner, respond to competitive challenges, or otherwise execute our business strategies.

Our ability to effectively implement our strategies and manage any significant growth of our business will depend on a number of factors, including our ability to: (i) effectively recruit, train, retain and motivate a large number of new employees, particularly our IT support staff and educational resource research and development professionals; (ii) continue to improve our operational, financial and management controls and efficiencies; (iii) successfully implement enhancements and improvements to the systems and infrastructures; (iv) improve product design and the quality of the digital educational resources embedded to make them appealing to existing and prospective students; (v) improve our sales and marketing efficiency; (vi) protect and further develop our intellectual property rights; and (vii) make sound business decisions in light of the scrutiny associated with operating as a public company. These activities require significant capital expenditures and investment of valuable management and financial resources, and our growth will continue to place significant demands on our management. There are no guarantees that we will be able to effectively manage any future growth in an efficient, cost-effective and timely manner, or at all. Our growth in a relatively short period of time is not necessarily indicative of results that we may achieve in the future. If we do not effectively manage the growth of our business and operations, our reputation, results of operations and overall business and prospects could be negatively impacted.

Our IT systems and infrastructure may experience unexpected system failures, interruptions, inadequacies or security breaches.

Our business relies on the proper functioning of our IT systems and network infrastructure to effectively manage our procurement, inventory, sales activities and other business processes. Our continuing growth is also dependent on our big-data capacities, which in turn, relies on our IT ability to collect and analyze a huge amount of industry insights and experience, student data, including complex students' learning behavior and performance data, and extensive data on developing educational resources. As such, any damage or failure of our IT systems or network infrastructure that causes an interruption to our operations could have a material and adverse effect on our business and results of operations. Our IT systems may be vulnerable to damage or interruption from circumstances beyond our control, including power outages, fire, natural disasters, systems failures, security breaches and viruses. We also need to constantly upgrade and improve our IT systems to keep up with the continuous growth of our operations and business. Although we did not experience any material IT system breakdown during the Track Record Period, we cannot assure you that our IT systems will always operate without interruption in the future. Moreover, our end users rely on local telecommunication operators to supply internet network service in their regions, the quality of which is beyond our control. If the local internet network service experiences unexpected interruption, our end users may not be able to connect online to obtain cloud-based digital educational resources in a timely manner, which may significantly and adversely affect the user experience. In addition, the roll-out of the 5G infrastructure in China is largely subject to the development agenda of the central government and the execution of local governments, progress of which may vary significantly from place to place. As such, not all of our end user, especially those located in remote areas, are able to take advantage of our latest product models powered by 5G technologies in a timely manner. Lack of 5G network coverage does not compromise any material functionality of our smart learning devices, nor does it necessarily prevent the users from using our devices. But it may cause unsatisfying user experience, such as lower data speed and slower response time. 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 market is still under served and presents remarkable opportunities.

Moreover, our business generates and processes a large quantity of user behavioral, transaction and demographic data. We face risks inherent in handling and protecting large volumes of data. We cannot guarantee that the information security measures we currently maintain are adequate or that our IT systems can withstand intrusions from or prevent improper usage by third parties. We utilize our IT systems to collect and archive information of users. If our network security is compromised and such information is stolen or obtained by unauthorized persons or used inappropriately, we may subject to negative publicity and lose users as a result of a loss of their confidence in us, and may also become subject to litigation or other proceedings brought by relevant consumers and financial institutions. Any such proceedings could divert management attention and our other resources from our business and cause us to incur significant unplanned losses and expenses. Consumer perception of our brand could also be negatively affected by these events, which could further adversely affect our business and results of operations. In addition, PRC government has been implementing more stringent regulations and policies relating to data collection, storage, transfer, disclosure and privacy protection, which may subject us to additional potential risks and further increase our compliance costs by enhancing our IT systems or improving our information security measures.

Our business is subject to complex and evolving laws and regulation regarding data security and privacy.

PRC regulatory authorities have implemented and are considering further legislative and regulatory proposals with more stringent requirements concerning data security and privacy. In addition, the interpretation and application of data security and privacy laws in the PRC may be uncertain and in flux. Existing or newly-introduced laws and regulations, or their interpretation, application or enforcement, could require us to change our data security and privacy practices and other business activities, including but not limited to data collection, storage, transmission and exchange or other data usage activities.

Compliance with the data security and privacy related laws and regulations as well as additional or amended laws and regulations that PRC regulatory bodies may enact in the future, may result in additional expenses to us. Although we have not received any penalty due to breach of data privacy as of the Latest Practicable Date, we cannot assure you that we are able to manage these risks in the future. If we fail to be in full comply with any data security and privacy laws and regulations and become subject to administrative penalties and negative publicity, our reputation and results of operations could be materially and adversely affected.

The CAC, jointly with the other 12 governmental authorities, issued the Measures for Cyber Security Reviews (2021) (《網絡安全審查辦法》(2021)), or the Cybersecurity Review Measures (2021) on December 28, 2021, which became effective on February 15, 2022 and repeal the Measures simultaneously. According to the Cybersecurity Review Measures (2021), an application for cybersecurity review shall be made to the Office of Cybersecurity Review in the following circumstances: (i) critical information infrastructure operators, or the CIIO, which purchase network products or services, shall prejudge any possible risks to national security after such products or services are put into use; and they shall apply for cybersecurity review of the Office of Cybersecurity Review when such actions affect or may affect national security; and (ii) network platform operators who handle personal information of more than 1 million users shall apply for cybersecurity review of the Office of Cybersecurity Review when they intend to go listed in a foreign country. The CAC also publicly solicited comments, on 14 November 2021, 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)》), or the Draft Data Security 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". The PRC government authorities may have broad discretion in the interpretation of "affect or may affect national security" under the Cybersecurity Review Measures (2021) and the Draft Cyber Data Security Regulation. If any internet products, services or data processing activities of us are deemed to "affect or may affect national security" or if we were deemed as a data processor that "affect or may affect national security" by the PRC government authorities under its broad discretion, we may be subject to cyber security review. Given the complex and uncertain regulatory environment, we cannot assure you that we will be able to take timely and effective measures to meet all the updated legal and regulatory requirements. Any failure or delay in the completion of the cyber security review procedures or to comply with these laws, regulations or policies may result in, fines or other penalties, or inquiries and other proceedings or actions against us by governmental authorities or others, as well as negative publicity and damage to our reputation and brand, each of which could cause our business operations to be adversely affected.

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.

We are exposed to fraudulent or illegal activities or other misconduct by our employees, distributors, suppliers or other third parties, such as outsourced manufacturers, that could subject us to liabilities, fines and other penalties imposed by government authorities and negative publicity. For example, currently we have made available access to certain online free educational resources on our smart learning devices which are provided by qualified non-profit organizations with the permit to commence and other necessary approvals. If we fail to identify the such third-party content to be illegal or restrictive as stipulated by applicable laws and regulations, we may be required to rectify or be imposed administrative penalty and our reputation may be adversely affected.

Although we have implemented internal controls and policies with regard to the review and approval of merchant accounts, sales activities, interactions with business partners and government officials and other relevant matters, there can be no assurance that our controls and policies will prevent fraud or illegal activity by such persons or that similar incidents will not occur in the future. Any illegal, fraudulent, corrupt or collusive activity by our employees, distributors, suppliers or other third parties, including, but not limited to, those in violation of anti-corruption or anti-bribery laws, could subject us to negative publicity that could severely damage our brand and reputation and, if conducted by our employees, could further subject us to significant financial and other liabilities to third parties and fines and other penalties imposed by government authorities. Accordingly, our failure to detect and prevent fraudulent or illegal activities or other misconduct by our employees, distributors, suppliers or other third parties could materially and adversely affect our business, financial condition, results of operations and prospects.

Our risk management and internal control systems may not be adequate or effective.

We have designed and implemented risk management and internal control systems comprising organizational framework policies and procedures, financial reporting processes, compliance rules, and risk management measures we believe are appropriate for our business operations. While we seek to improve our risk management and internal control systems on a continuous basis, we cannot assure you that these systems are sufficiently effective in ensuring, among other things, accurate reporting of our financial results and the prevention of fraud.

Please refer to the section headed "Business – Risk Management and Internal Control" for further information on our internal control policies. Since our risk management and internal control systems depend on implementation by our employees, and even though we provide relevant internal trainings in this regard, we cannot assure you that our employees or other related third parties, such as our distributors, are sufficiently or fully trained to implement these systems, or that their implementation will be free from human error or mistakes. If we fail to timely update, implement, and modify, or fail to deploy sufficient human resources to maintain our risk management policies and procedures, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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.

We are required to comply with applicable education related regulations, production safety standards and a variety of other laws and regulations in relation to our operation and production process. Please refer to the section headed "Business – Licenses, Approvals and Permits" for details. Considering the complexity and magnitude of the laws and regulations, compliance with them may be burdensome or require a significant amount of labor, financial or other resources. These laws and regulations change from time to time and thus we cannot assure you that the relevant PRC government authorities will not impose any additional or more stringent laws or regulations, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to end users. Failure to comply with the licensing or other regulatory requirements may lead to termination of production and sale of our products, confiscation of the associated income, withdrawal of business license, or potentially criminal liabilities, which will materially and adversely affect our reputation, as well as our business, financial condition, results of operations and prospects.

The education related policies, laws and regulations in China are evolving, and their interpretation and enforcement involve significant uncertainty and ambiguity. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations. Issues, risks and uncertainties relating to the PRC governmental regulations of the Internet industry include, but are not limited to, the following:

The production, editing, transmission to the public through our online platform or mobile APP of our learning materials and audio-visual content, may be deemed as providing audio-video programs or Internet publishing services under relevant PRC Laws. Thus, our PRC Operating Entity may be required to obtain the License for Online Transmission of Audio Visual Programs (信息網絡傳播視聽節目許可證) or the License for Online Publishing Service (網絡出版服務許可證) as currently there is no further official or publicly available interpretation of whether such content/services would be deemed as "Audio-Visual programs" or "online publishing services." Based on the confirmations from (i) the online reply on official website of the Radio and Television Administration of Guangdong Province (廣東省廣播電視局) and (ii) the officer of the Bureau of Press and Publication of Guangdong Province (廣東

省新聞出版局) (through the bureau's official enquiry line accessed through, and published on, its official website), each being an authorized and competent person to provide their respective confirmations as advised by our PRC Legal Advisor, our PRC Legal Advisor is of the view that, as of the Latest Practicable Date, we are not explicitly required to obtain those licenses under current regulations and regulatory policies. However, we cannot assure that the competent PRC government authorities will not subsequently take a contrary view, especially in light of new regulatory developments. If the government authorities determine that any of our current operations falls within the scope of business operations that require the above-mentioned licenses or other licenses or permits, we may not be able to obtain such licenses or permits on reasonable terms or in a timely manner or at all, and failure to obtain such licenses or permits may subject us to fines, legal sanctions or an order to suspend our business operations.

Moreover, on April 7, 2021, the State Council promulgated 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》) which will come into effect on September 1, 2021. The Non-state Education Promotion Regulation further tightens the regulation and supervision on the investments in and operation of the private education industry in China. Among others, the Non-state Education Promotion Regulation provides the requirements and administrative procedures for various private education institutions. Moreover, following the release of the Opinions in July 2021, education and other related authorities have issued a number of detailed follow-up new policies, including (i) several notices issued by the MOE and other related authorities, which are policies advising detailed procedures with respect to the implementation of the Opinions, such as clarification on the scope of academic and non-academic subjects of after-school tutoring, approval and registration requirements and procedures for online after-school tutoring service providers (academic subjects), and regulations on managing the human resource and curriculums of the after-school tutoring service providers, (ii) a notice issued by the National Development and Reform Commission, the MOE and the State Administration of Market Supervision regulating the tuition fees charged by after-school tutoring service providers (academic subjects), and (iii) other notices issued by the education authorities at the provincial and city level, which mainly reaffirmed the policies in the Opinions and stipulated detailed procedural requirements with respect to the implementation of the Opinions within their respective jurisdiction (including one notice issued by the Department of Education of Guangdong Province, which is the competent authority to implement the relevant national rules, regulations and policies, including the Opinions, in Guangdong Province where the Group located in) (collectively, the "detailed follow-up new policies"). For example, on July 28, 2021, the Ministry of Education released the "Notice of General Office of the Ministry of Education on Further Clarifying the Scope of Academic Subjects and Non-Academic Subjects of After-school Tutoring in Compulsory Education", which provided that, when providing after-school tutoring services, the following subjects, namely ethics and rule of law, Chinese, history, geography, mathematics, foreign languages (English, Japanese, Russian), physics, chemistry and biology, are considered as academic subjects and are regulated in accordance with respective subject curriculum standards. Digital educational resources embedded in our smart learning devices involve certain content in connection with the nine academic subjects mentioned in the notice. On September 3, 2021, the Ministry of Education also released the "Notice of General Office of the Ministry of Education on Resolutely Investigating and Handling the Problem of Covertly Carrying Out Academic After-school Tutoring in Violation of the Regulations" (together with the July 28 notice, the "**MOE Notices**"), which specified certain cases of circumvention against the Opinion and the detailed administrative measures.

To better understand and to properly comply with the Opinions and the follow-up 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, October 9 and November 1, 2021. During two interviews 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) 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, (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, and (iii) 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. For more detailed description of such interviews and the confirmations we obtained from the interviews with education authorities, please refer to "Summary – Recent Regulatory Changes" and "Business – Our Digital Educational Resource Offerings – Recent Regulatory Changes." Furthermore, supported by the opinions from our PRC Legal Advisor, we believe that we and our current practice are not subject to the restrictions provided by the detailed follow-up new policies including the MOE Notices, on the basis that: (i) as confirmed in the follow-up interview on October 9, 2021 by the responsible officer from the Department of Education of Guangdong Province, the detailed follow-up new policies are mainly policies further providing more specific and practical requirements with respect to the implementation of the Opinions, which do not provide additional regulatory restrictions outside the scope of the Opinions, as such, the detailed follow-up new policies target to regulate the after-school tutoring service providers as the Opinions does, while we are not an after-school tutoring service provider upon the completion of the adjustment to our operations; (ii) the provision of digital educational resources in the form of pre-recorded video would not be regarded as an indirect circumvention of the Opinions, and our digital educational resources, including the pre-recorded video resources, are different from the video classes provided by after-school tutoring service providers, in that 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, and we do not separately charge fees based on digital educational resources; and (iii) the responsible officer we interviewed also confirmed that the provision of digital educational resources in the form of pre-recorded video by us does not constitute a form of after-school tutoring business strictly regulated by the Opinions and is permitted under current regulatory requirements, and based on the interview, our PRC Legal

Advisor is of the opinion that the production and sales of smart learning devices embedded with digital educational resources by us is in compliance with the applicable laws, regulations and policies. As such, we concluded that we are not directly regulated by the detailed follow-up new policies including the MOE Notices.

However, we cannot assure you that the competent PRC government authorities will not release new laws, regulations or policies to further regulate the education industry which may impact our business operations in one way or another. We may not be able to make adjustments to our business operations in a timely manner to comply with such new laws regulations or policies, nor can we ensure that our products can remain popular after such adjustments. In addition, we also cannot assure you that the competent PRC government authorities will not subsequently provide additional requirements or establish complicated administrative procedures and require us to obtain other permits or certificates. We may not be able to obtain such permit or certificate on reasonable terms or in a timely manner or at all, and failure to obtain such permit or certificate may subject us to fines, legal sanctions or an order to suspend our business operations.

We recorded negative operating cash flows during the Track Record Period.

We had negative cash flow from operating activities of approximately RMB40.5 million for the year ended December 31, 2021, which was primarily the result of (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, partially offset by profit before tax of RMB72.0 million. For further information, see "Financial Information – Current Assets and Liabilities" and "Financial Information – Liquidity and Capital Resources – Cash Flows Analysis." Although we believe that the negative cash flow from 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, 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 cannot assure you that we will be able to generate positive cash flows from operating activities in the future. Our liquidity and financial condition may be materially and adversely affected should our future operating cash flow remain negative, and we cannot assure you that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur additional financing costs and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us or at all.

We are exposed to credit risks related to our trade receivables.

We are subject to credit risks and during the Track Record Period, our credit risks were primarily attributable to our trade receivables. We enter into a wide variety of contractual arrangements with different counterparties in the ordinary course of our business. During the Track Record Period, we generally required advanced payment from most of our distributors, upon or prior to delivery of our products. For certain distributors, we granted credit terms of

30 days, or a longer period at their request but subject to our discretion, after the issue of invoice to certain of our customers that had good credit records or made relatively large purchases from us. As of December 31, 2019, 2020 and 2021, our trade receivables amounted to RMB17.0 million, RMB23.6 million and RMB47.6 million, respectively. Our trade receivables turnover days were 18 days, 10 days and 16 days in 2019, 2020 and 2021. In addition, during the Track Record Period, we made general impairment in respect of the outstanding trade receivables in the amount of RMB84 thousand, RMB0.4 million and RMB0.8 million as of December 31, 2019, 2020 and 2021, respectively. See "Financial Information – Analysis of Selected Consolidated Statements of Financial Position Balance Sheet Items – Trade Receivables" for further details.

Our senior management regularly reviews the recoverability of the balances of our trade receivables, and no impairment is necessary in respect of the remaining unsettled balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. We assess the credit worthiness of our customers through inquiries into their credit profiles and reputation in the industry and by collection and reviewing materials regarding their operating history, sales performance, relationship history with us, past credit problems and financial conditions. However, as there is limited accurate financial or public information on many of our counterparties, we cannot assure you that all of our counterparties are creditworthy and reputable and will not default on us in the future, despite our efforts to conduct credit assessments on them. As a result, we may be exposed to risks if a material number of our counterparties fail to fulfil their obligations to us under our contracts in the future.

The realization of our deferred tax assets is subject to accounting uncertainties.

In the application of our accounting policies, we are required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities. The estimates and associated assumptions are based on historical experience and other relevant factors. As a result, actual results may differ from these accounting estimates. As of December 31, 2019, 2020 and 2021, we recognized deferred tax assets of RMB18.8 million, RMB22.1 million and RMB32.5 million, respectively. Based on our accounting policies, deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilized. The realization of a deferred tax asset mainly depends on our estimate as to whether sufficient future profits will be available in the future. If sufficient future taxable profits are not expected to be generated or are less than expected, a material reversal of deferred tax assets may arise.

Our results of operations and financial condition may be affected by our financial liabilities at fair value through profit or loss, which is subject to uncertainties in accounting estimation.

As of December 31, 2019, 2020 and 2021, we had financial liabilities at fair value through profit or loss in the amount of nil, nil and RMB120.4 million, respectively. In 2019, 2020 and 2021, changes in fair value of financial liabilities at fair value through profit or loss were nil, nil and RMB26.6 million. Such financial liabilities at fair value through profit or loss 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**]. The relevant estimated changes in fair values involve the exercise of professional judgment and the use of certain bases, assumptions and unobservable inputs, which, by their nature, are subjective and uncertain, see "Financial Information – Description of Certain Major Components of Our Consolidated Statement of Comprehensive Income – Changes in Fair Value of Financial Liabilities at Fair Value Through Profit or Loss" for more details. As such, the valuation of the financial liabilities has been, and will continue to be, at least for the period till the [**REDACTED**] or the other point of time as provided in the share purchase agreements, subject to uncertainties in accounting estimation, which may not reflect actual fair value of these financial liabilities and result in significant fluctuations in our results of operations and financial condition for the relevant period.

Our investments in wealth management products may be subject to certain counterparty risks and market risks

During the Track Record Period, to better manage our cash at hand, we invested in certain wealth management products, mainly structured deposits. These investments are generally only purchased short-term low-risk wealth management products from reputable commercial banks in the China. We commenced to invest in structured deposits from 2020 and as of December 31, 2020 and 2021, there was no outstanding balance of the structured deposits. In 2020 and 2021, investment income from structured deposits was RMB1.2 million and RMB2.3 million, respectively. We plan to continue to invest in structured deposits after the [**REDACTED**] and may consider other wealth management products when we believe that we have sufficient cash and the potential investment returns are reasonable.

We are subject to the risks that any of our counterparties, such as the licensed banks that issued the structured deposits, may not perform their contractual obligations, such as in the event that any such counterparty declares bankruptcy or becomes insolvent. Any material non-performance of our counterparties with respect to the structured deposits we invested in could materially and adversely affect our financial position and cash flow. Furthermore, our short-term investments are subject to the overall market conditions, including the capital markets. Any volatility in the market or fluctuations in interest rates may reduce our financial position or cash flow, which, in turn, could materially and adversely impact our financial condition. In addition, general economic and market conditions affect the fair value of these wealth management investments. If circumstances indicate that the carrying amount of these investments may not be recoverable, such investments may be considered impaired, and an impairment loss would be recognized in accordance with accounting policies and charged to our consolidated statements of profits or loss and other comprehensive income for the relevant period. Accordingly, any material decline in the fair value of these investments may have a material adverse effect on our results of operations.

We have put in place certain internal control procedures for reducing risks in relation to these investments. However, we cannot assure you that these procedures will be effective and adequate. We cannot assure you that we will not experience losses with respect to these investments in the future or that such losses or other potentially negative impact will not have a material adverse effect on our business and financial condition.

Our future acquisitions may not be successful

We may acquire or invest in other companies to expand our business. Our ability to generate profits and cash flow from these acquisitions will depend on our ability to integrate their business into our Group, which may be affected by a variety of factors not within our control, such as the complexity and size of their business operations, their limited experience in managing certain types of properties and businesses, the risks of operating in new markets, unfamiliarity in corporate cultures, the inability to retain key personnel, as well as additional hidden costs associated with the acquisitions and business integration. If we fail to successfully integrate and manage the new businesses, we may not be able to expand as originally planned.

We will continue to selectively pursue potential acquisitions of businesses, brands, hardware product and/or educational resource providers in our upstream or downstream sectors that are in line with our growth strategy and are complementary to our existing operations. However, we cannot assure you that we will be able to identify such opportunities. Even if we manage to identify suitable opportunities, we may not be able to complete the acquisitions on terms favorable or acceptable to us or in a timely manner. The inability to identify suitable acquisition targets or complete the acquisitions could materially and adversely affect our competitiveness and growth prospects.

We plan to use part of our [**REDACTED**] from the [**REDACTED**] to pursue strategic acquisition and investment opportunities. No acquisition targets were identified as of the Latest Practicable Date. If we fail to identify suitable acquisition opportunities or our future acquisitions fail to consummate for reasons beyond our control, the [**REDACTED**] may not be effectively utilized to sustain our growth.

If we are unable to perform our contracts, our results of operations and financial condition may be adversely affected.

During the Track Record Period, our contract liabilities mainly represented revenue to be recognized primarily in connection with the digital educational resources. To a lesser extent, it also included the prepayments from customers who purchased our products which had not been delivered. As of December 31, 2019, 2020 and 2021, we had revenue-related contract liabilities of RMB128.4 million, RMB156.3 million and RMB159.0 million, respectively.

If we fail to honor our obligations under our contracts with customers, we may not be able to convert such contract liabilities into revenue, and our customers may also require us to refund the prepayments they have made, which may in turn adversely affect our financial condition. In addition, if we fail to honor our obligations under our contracts with customers, it may also adversely affect our reputation and the relationship with such customers, which may in turn affect our results of operations in the future.

We may incur significant costs in connection with our branding and marketing efforts, and some marketing campaigns may not be effective in attracting or retaining end users.

We continuously invest in our brand to further raise brand recognition and acceptance and engage in various marketing campaigns to promote our products and services. We rely on different marketing efforts tailored for our target end user groups to increase brand awareness and boost our sales. We market our brand and products across a wide variety of media, ranging from traditional to Internet and other new media channels. Moreover, as we continue to build our online presence, we expect our marketing expenses relating to cooperation with online channels to continue to increase. For the years ended December 31, 2019, 2020 and 2021, our selling and distribution expenses amounted to RMB63.5 million, RMB74.2 million and RMB73.1 million, respectively, representing approximately 9.5%, 10.1% and 9.0%, respectively, of total revenue over the same periods. However, we cannot guarantee that our marketing efforts will be well-received by target end users and result in higher levels of sales. In addition, marketing trends and approaches in our industry are evolving, which requires us to enhance our marketing approaches and experiment with new marketing methods to keep pace with industry developments and user preferences. Failure to refine our marketing approaches or to adopt new, more cost-effective marketing techniques could negatively affect our business, growth prospects and results of operations.

We may not be able to adequately protect our intellectual property, which could adversely affect our business and operations.

We rely on a combination of copyrights, including our various educational resources, trademarks, trade secrets and other intellectual property as well as confidentiality agreements with our senior management team and key research and development team members to protect our trademarks, copyrights, trade secrets and other intellectual property rights. In particular, when researching and developing our digital educational resources, we have accumulated a variety of trade secrets and know-hows in connection with skills and methods achieving learning efficiency. Such trade secrets and know-hows are one of our key competitive advantages that is extremely valuable for us to attain our current market position. Details of our intellectual property rights are set out in "Business – Intellectual Property" and "Appendix VI Statutory and General Information – B. Further Information About our Business – 2. Intellectual Property Rights." However, such trade secrets and know-hows are usually not patented, either because they do not meet the patentability criteria or because we intentionally do not apply for patent registration to avoid the possibility of disclosing material information to the public in complying with the patent registration procedures. The level of protection available to trade secrets and know-hows is generally weaker than that of registered patents in the PRC. As such, we cannot assure you that our current protection measures are adequately to prevent third parties from accessing and using our trade secrets and know-hows without authorization. It is also likely that other third parties may develop the same or similar trade secrets and know-hows and seek for protection from patent registrations in the PRC. Under such circumstances, our ability to continue to adopt such intellectual property rights may be materially limited.

As of the Latest Practicable Date, we were not aware of any material violations or infringements of our trademarks, copyrights, trade secrets or any other intellectual property rights.

We cannot ensure that third parties will not infringe our intellectual property rights. We may, from time to time, have to initiate litigation, arbitration or other legal proceedings to protect our intellectual property rights. Regardless of the judgment, such process would be lengthy and costly, would divert management's time and attention, and would seriously harm our business, financial conditions and results of operations.

We have been, and will continue to be, involved in claims brought against us by third parties for infringements of their trademarks, copyrights, trade secrets or any other intellectual property rights. Such claims, if successfully established, may restrain our right to use the relevant intellectual property rights, and our reputation, business and results of operations may be materially and adversely affected.

In our ordinary course of business, we have been, and may continue to be, subject to claims by various third parties, including but not limited to educational institutions and organizations, educational resource providers and publishers, our competitors and others right owners, on the ground of intellectual property rights infringement, defamation, negligence or other legal theories based on the content of the materials that we use or distribute. For example, during the Track Record Period, we were involved in two lawsuits brought by publishers, claiming that we had violated the copyrights relating to certain content owned by them by duplicating and distributing such content without their authorization. The lawsuits were subsequently settled by mediation and case withdrawal by the plaintiff. We agreed to pay the settlement fee in the aggregate amount of approximately RMB0.6 million, which had been fully paid by the end of 2020 we believe is insignificant. In addition, we were also involved in a lawsuit brought by a third party against us, claiming that one of our smartwatch product model had infringed its design patent and requested us, among others, to rectify the infringement and pay a compensation. In November 2021, we received a court decision after our appeal in favor of the plaintiff. We were ordered to make a compensation in the amount of RMB0.3 million which had been fully paid as of the Latest Practicable Date.

We have endeavored to comply with the applicable PRC laws and regulations relating to intellectual property and we have improved our internal policies and procedures to prohibit our employees and other relevant third parties from engaging in any copyright, trademark or trade name infringing activities. However, we cannot assure you that such policies are adequate or each of our employees and relevant third parties will strictly comply with these policies. In addition, despite our efforts in complying with the relevant laws and regulation, there remain uncertainties in the interpretation and application of intellectual property laws and regulations. As such, disputes may arise where we and a third party have different understanding about certain interpretation and application of such laws and regulations. We may be found by the local courts in infringement of the third party's intellectual property right, and may be subject to monetary or other penalties.

In order to develop and improve our digital educational resources, we cooperate with various education content providers and are required to obtain licenses from others from time to time. With access to such high-quality education content, we further develop localized content that better serve the needs of target students. There can be no assurance that we will be able to continue to obtain licenses on commercially reasonable terms, or at all, or that rights granted under any licenses will be valid and enforceable.

Any claims against us, with or without merit, could be time-consuming and costly to defend or litigate, divert our management's which could result in increased expenses, loss in revenues and adverse publicity, and damage to our brand and reputation. If a lawsuit against us is successful, we may be required to pay substantial damages and/or enter into royalty or license agreements that may not be based upon commercially reasonable terms, or we may be unable to enter into such agreements at all. We may also lose, or be limited in, the rights to offer some of our digital educational resources or be required to make changes to such content. As a result, the scope of our digital educational resources could be compromised, which could adversely affect the effectiveness of our digital educational resources, limit our ability to attract new students, harm our reputation and have a material adverse effect on our results of operations and financial position. We will also incur additional expenses in connection with identifying and obtaining additional educational resources that suits us from other third parties, which may be time consuming and costly.

We have limited insurance to cover our potential losses and claims.

We maintained limited statutory insurance, which we believe is customary for businesses of our size and type and in line with the standard commercial practice in our industry. See "Business – Insurance" for more details on our insurance policies. If we were held liable for uninsured losses, our business and results of operations may be materially and adversely affected.

In addition, we are not insured against product liability or business interruptions resulting from natural disasters such as droughts, floods, earthquakes or severe weather conditions, any suspension or cessation in the supply of utilities or other calamities. Any liability claim for damages relating to our products, interruption to our operations, and the resulting losses or damages, could materially and adversely affect our business, results of operations and financial condition.

We may be required to make additional social insurance fund and housing provident fund contributions, as well as pay outstanding contributions and fines imposed by relevant governmental authorities.

Under the Social Insurance Law of the People's Republic of China and the Regulations on the Management of Housing Provident Fund, we are required to make social insurance fund and housing provident fund contributions to our employees. Certain subsidiaries of us in China were unable to make full social insurance fund and housing provident fund contributions. In 2019, 2020 and 2021, the shortfall was estimated at RMB5.2 million, RMB2.0 million and RMB5.4 million, respectively. As of December 31, 2019, 2020 and 2021, the carrying amount of our provisions for social insurance premiums and housing provident funds amounted to RMB11.7 million, RMB7.2 million and RMB7.5 million, respectively. We are not aware of any complaints or requests from the employees in relation to the payment of such contributions. According to the opinions of our PRC Legal Advisor, the relevant PRC authorities may require us to pay the outstanding social insurance fund by the due date and make daily overdue payment equivalent to 0.05% of the unpaid amount from the due date. If we fail to pay our unpaid social insurance contributions within a designated term, we may be subject to a fine of one to three times of the unpaid social insurance fund. If we fail to timely pay or underpay the housing provident fund, the housing provident fund management center will order us to pay the fund within a designated term. Applications may be made to the People's Court for compulsory enforcement if the overdue payment is not made. See "Business – Non-compliance Incidents" for further information.

We may be subject to fines for failure to register some of our lease agreements.

As of the Latest Practicable Date, we entered into three lease agreements as the tenant and six lease agreements as the landlord in China, all of which had yet to be registered with the relevant government authorities in accordance with PRC laws and regulations. As advised by our PRC Legal Advisor, the lack of registration of a lease will not affect the validity of the lease agreement. However, we may be subject to a maximum penalty of RMB10,000 for each of such non-registered leases should we fail to register the lease agreements upon request by the relevant authority within a designated term, which may have an adverse effect on our business, financial condition, results of operations and prospects. Please refer to the section headed "Business – Properties, Plants and Equipment – Leased Properties" for details.

Failure to comply with environmental laws and regulations, may subject us to fines or penalties or incur costs that could materially adversely affect the success of our business.

We are subject to a number of environmental, health and safety laws and regulations, including but not limited to the Environmental Protection Law, the Environment Impact Assessment Law. Please see "Regulatory Overview" for details.

Failure to comply with environmental laws may affect our abilities to develop, manufacture and commercialize our products as we plan. As requirements imposed by such laws and regulations may change and more stringent laws or regulations may be adopted, we may not be able to comply with, or accurately predict any potential substantial cost of complying with, these laws and regulations. If we fail to comply with environmental protection laws and regulations, we may be subject to rectification orders, substantial fines, potentially significant monetary damages, or production suspensions in our business operations.

Furthermore, we may be required to incur substantial costs to comply with current or future environmental laws and regulations. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions. Any of the foregoing could materially adversely affect our business, financial condition, results of operations and prospects.

We may be involved in claims, disputes and legal proceedings in our ordinary course of business.

From time to time, we may be involved in claims, disputes and legal proceedings in our ordinary course of business. These may concern issues relating to, among others, breach of contract, employment or labor disputes, antitrust, infringement of intellectual property rights and environmental matters. In particular, the manufacture and sales of our products subjects us to potential product liability claims if our products are proved to have failed to meet relevant health and safety or other laws and regulations, or cause or are alleged to have caused illness or health issues. See "– We have been, and will continue to be, involved in claims brought against us by third parties for infringements of their trademarks, copyrights, trade secrets or any other intellectual property rights. Such claims, if successfully established, may restrain our right to use the relevant intellectual property rights, and our reputation, business and results of operations may be materially and adversely affected." For another example, in 2020, mainly due to the disagreement on the quality of services provided, an independent individual brought a lawsuit against us with local people's court, claiming that we delayed in making the payment under a technology services contract. The lawsuit had been settled in late 2020 and we made the payment of service fee and related interest in an aggregate amount of RMB0.5 million. We believe the aggregate amount we incurred in connection with the settlement of lawsuits during the Track Record Period is insignificant. If we do not succeed in defending against any product liability claims or other claims, we may be subject to substantial damages to compensate the claimants. Any claims, disputes or legal proceedings initiated by us or brought against us, with or without merit, may result in substantial costs and diversion of resources, may materially harm our reputation. Furthermore, claims, disputes or legal proceedings against us may be due to defective supplies sold to us by our suppliers, who may not be able to indemnify us in a timely manner, or at all, for any costs that we incur as a result of such claims, disputes and legal proceedings.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

We may be required to complete the filing with the CSRC for the [REDACTED] and subject to additional regulatory requirements if certain new draft regulations relating to overseas listing are implemented in China.

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 Regulations on Listing require, among others, that PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to file the required documents with the CSRC within three working days after its application for overseas listing is submitted. See "Regulatory Overview – Laws and regulations relating to overseas listing" for more details. As of the Latest Practicable Date, the Draft Regulations on Listing were released for public comments only and the final version and effective date of such regulations are subject to change with substantial uncertainty.

In addition, according to the "Reply to the Reporters' Question by the CSRC Responsible Officers" (證監會有關負責人答記者問) dated 24 December 2021, the CSRC clarified that it adheres to the principle of non-retroactivity of the law, and the CSRC would start with the incremental enterprises (增量企業), i.e., impose filing procedures on incremental enterprises as well as stock enterprises (存量企業) with refinancing requests, while filing by other stock enterprises will be arranged separately so as to give them a sufficient transitional period. However, the CSRC Responsible Officers did not provide a clear definition of these terms. Therefore, whether our Company, for the purpose of this [**REDACTED**], is an "incremental enterprise (增量企業)" or a "stock enterprise (存量企業)" is subject to further explanation by the CSRC.

We cannot guarantee that we will be categorized as a "stock enterprise (存量企業)" by the CSRC. If we are categorized as an "incremental enterprise (增量企業)", we may have to incur significant time, costs and resources to comply with these regulatory requirements and have to complete the filing procedures with the CSRC with respect to this [**REDACTED**]. Further, even if we are categorized as a "stock enterprise (存量企業)", we may still face more stringent regulatory requirements as compared to its current status. As such, our business operations may be materially and adversely affected. In addition, uncertainties exist regarding the final form of these regulations in relation to overseas listing as well as the interpretation and implementation thereof after promulgation. Any failure to comply with the rules and regulations relating to overseas listing may subject us to fines, penalties or other sanctions which may have a material adverse effect on our business and financial conditions as well as our ability to complete the [**REDACTED**].

If the PRC government finds that the agreements that establish the structure for operating our operations in China do not comply with applicable PRC regulations, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe consequences, including the nullification of the contractual arrangements and being forced to relinquish our interests in those operations.

Foreign ownership in entities that provide Internet and other related businesses, including the businesses involving certain education services, is subject to restrictions under current PRC laws and regulations, unless certain exceptions are available. We are a company incorporated in the Cayman Islands and our PRC Subsidiaries except for our PRC Operating Entity are considered foreign-invested enterprises. Accordingly, we and our PRC Subsidiaries except for our PRC Operating Entity are not eligible to provide Internet information services and other value-added telecommunication business subject to foreign ownership restriction under PRC laws. To ensure compliance with the PRC laws and regulations, we conduct our business in China through the PRC Operating Entity. We have entered into contractual arrangements with the PRC Operating Entity and its shareholders, through which we obtain effective control over the PRC Operating Entity and substantially all of the economic benefits arising from the PRC Operating Entity and are able to consolidate the financial results of the PRC Operating Entity in our results of operations. See "Contractual Arrangements."

Our PRC Legal Advisor has advised us that subject to the risks as disclosed in the section headed "– Risks Relating to Our Contractual Arrangements" and "Contractual Arrangements," (i) the contractual structures of our wholly-owned PRC subsidiary and the PRC Operating Entity and its respective equity holders in China, both currently and immediately after giving effect to the [**REDACTED**], do not violate any applicable PRC law, regulations or rules currently in effect in any material respects, and each agreement of the Contractual Arrangements between our wholly-owned PRC subsidiaries, the PRC Operating Entity and its respective equity holders governed by PRC law is valid, binding and does not violate any mandatory PRC law currently in effect in any material respects. Our PRC Legal Advisor has also advised that there are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. Thus, we cannot assure you that the PRC government will not ultimately take a view contrary to the opinion of Jingtian & Gongcheng, our PRC Legal Advisor. If we are found in violation of any PRC laws or regulations or if the Contractual Arrangements among our wholly-owned PRC subsidiaries, the PRC Operating Entity and its respective equity holders are determined as illegal or invalid by any PRC court, arbitral tribunal or regulatory authorities, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoke the agreements constituting the Contractual Arrangements;

- revoke our business and operating licenses;

- require us to discontinue or restrict operations;

- restrict our right to collect revenue;
- restrict or prohibit our use of the [**REDACTED**] from our [**REDACTED**] to fund our business and operations in China;
- shut down all or part of our websites or services;
- levy fines on us and/or confiscate the proceeds that they deem to have been obtained through non-compliant operations;
- require us to restructure the operations in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets;
- impose additional conditions or requirements with which we may not be able to comply; or
- take other regulatory or enforcement actions that could be harmful to our business.

Furthermore, any of the assets under the name of any record holder of equity interest in the PRC Operating Entity, including such equity interest, may be put under court custody in connection with litigation, arbitration or other judicial or dispute resolution proceedings against that record holder. We cannot be certain that the equity interest will be disposed of in accordance with the Contractual Arrangements. In addition, new PRC laws, rules and regulations may be introduced to impose additional requirements that may impose additional challenges to our corporate structure and Contractual Arrangements. The occurrence of any of these events or the imposition of any of these penalties may result in a material and adverse effect on our ability to conduct Internet-related businesses. In addition, if the imposition of any of these penalties causes us to be unable to direct the activities of the PRC Operating Entity or the right to receive its economic benefits, we would no longer be able to consolidate the PRC Operating Entity into our financial statements, which could materially and adversely affect our financial condition and results of operations. In this case, we may also face the risk that the Stock Exchange may consider our Company to be no longer suitable for [**REDACTED**] and consequently [**REDACTED**] our Shares.

Our Contractual Arrangements may not be as effective in providing operational control as direct ownership.

We operate a majority of our business in China through the PRC Operating Entity, in which we have no ownership interest and rely on the Contractual Arrangements with the PRC Operating Entity and its equity holders to control and operate these businesses. A majority of our revenue and cash flow from our business are attributed to the PRC Operating Entity. The Contractual Arrangements may not be as effective as direct ownership in providing us with control over the PRC Operating Entity. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the boards of directors of the PRC Operating Entity, which, in turn, could effect changes, subject to any applicable fiduciary obligations at the management level. However, under the Contractual Arrangements, as a legal matter, if the PRC Operating Entity or its equity holders fail to perform their respective obligations under the Contractual Arrangements, we may have to (i) incur substantial costs, (ii) expend significant resources to enforce those arrangements, and (iii) resort to litigation or arbitration and rely on legal remedies under PRC laws. These remedies may include seeking specific performance or injunctive relief and claiming damages, any of which may not be effective. In the event we are unable to enforce the Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing the Contractual Arrangements, we may not be able to exert effective control over the PRC Operating Entity and may lose control over the assets owned by the PRC Operating Entity. As a result, we may be unable to consolidate the PRC Operating Entity in our consolidated financial statements, which could materially and adversely affect our financial condition and results of operations.

Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could negatively affect our financial condition and the value of your investment.

The tax regime in China is rapidly evolving, and there is significant uncertainty for taxpayers in China as PRC tax laws may be interpreted in significantly different ways. The PRC tax authorities may assert that we or our subsidiaries or the PRC Operating Entity or its equity holders owe and/or are required to pay additional taxes on previous or future revenue or income. In particular, under applicable PRC laws, rules and regulations, arrangements and transactions among related parties, such as the Contractual Arrangements with the PRC Operating Entity, may be subject to audit or challenge by the PRC tax authorities. If the PRC tax authorities determine that any Contractual Arrangements were not entered into on an arm's length basis and therefore constitute a favorable transfer pricing, the PRC tax liabilities of the relevant subsidiaries and/or the PRC Operating Entity and/or equity holders of the PRC Operating Entity could be increased, which could increase our overall tax liabilities. In addition, the PRC tax authorities may impose late payment interest. Our profit may be materially reduced if our tax liabilities increase.

Our current corporate structure and business operations may be affected by the Foreign Investment Law.

The PRC Operating Entity structure through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. On March 15, 2019, the National People's Congress promulgated the Foreign Investment Law (2019), and on December 31, 2019, the State Council promulgated the Implementing Rules of Foreign Investment Law, or the Implementing Rules, to further clarify and elaborate the relevant provisions of the Foreign Investment Law (2019). The Foreign Investment Law (2019) and the Implementing Rules both became effective from January 1, 2020 and replaced the major previous laws and regulations governing foreign investments in the PRC. Since they are relatively new, uncertainties exist in relation to their interpretation and implementation. The Foreign Investment Law and the Implementing Rules do not explicitly classify whether the PRC Operating Entity that is controlled through contractual arrangements would be deemed as a foreign invested enterprise if it is ultimately "controlled" by foreign investors. However, the Foreign Investment Law has a catch-all provision under definition of "foreign investment" that includes investments made by foreign investors in China through other means as provided by laws, administrative regulations or the State Council. Therefore it still leaves leeway for future laws, administrative regulations or provisions of the State Council to provide for contractual arrangements as a form of foreign investment, until when it remains uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment in the PRC and if yes, how our Contractual Arrangements should be dealt with.

The Foreign Investment Law (2019) grants national treatment to foreign-invested entities, except for those foreign-invested entities that operate in industries specified as either "restricted" or "prohibited" from foreign investment in the Special Administrative Measures (Negative List) for Foreign Investment Access jointly promulgated by MOFCOM and the NDRC and took effect in January 2022. The Foreign Investment Law provides that foreign-invested entities are not allowed to operate in "prohibited" industries and their operating in "restricted" industries shall satisfy certain conditions and will require market entry clearance and other approvals from relevant PRC government authorities. On December 26, 2019, the Supreme People's Court issued the Interpretations on Certain Issues Regarding the Applicable of Foreign Investment Law, or the FIL Interpretations, which came into effect on January 1, 2020. In accordance with the FIL Interpretations, any claim to invalidate an investment agreement will be supported by courts if such agreement is found to be entered into for purposes of making investments in the "prohibited industries" under the negative list or for purposes of investing in "restricted industries" while failing to satisfy the conditions set out in the negative list. If our control over the PRC Operating Entity through Contractual Arrangements is deemed as foreign investment in the future, and any business of the PRC Operating Entity is "restricted" or "prohibited" from foreign investment under the "negative list" effective at the time, we may be deemed to be in violation of the Foreign Investment Law, the Contractual Arrangements that allow us to have control over the PRC Operating Entity may be deemed as invalid and illegal, and we may be required to unwind such Contractual Arrangements and/or restructure our business operations, any of which may have a material adverse effect on our business operations.

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. Therefore, our Contractual Arrangements and the business of the PRC Operating Entity are subject to the risks and uncertainties in connection with the interpretation and implementation of the 2022 FITE Regulations.

Furthermore, if future laws, administrative regulations or provisions mandate further actions to be taken by companies with respect to the Contractual Arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure and business operations.

Any failure by the PRC Operating Entity or its shareholders to perform their obligations under our Contractual Arrangements with them would have a material adverse effect on our business.

If the PRC Operating Entity or its shareholders fail to perform their respective obligations under the Contractual Arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and contractual remedies, which we cannot assure you will be sufficient or effective under PRC law. For example, if the shareholders of the PRC Operating Entity were to refuse to transfer their equity interests in the PRC Operating Entity to us or our designee if we exercise the purchase option pursuant to the Contractual Arrangements, or if they were otherwise to act in bad faith toward us, then we may have to take legal actions to compel them to perform their contractual obligations.

All the agreements under our Contractual Arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce the Contractual Arrangements. See "– Risks Relating to Doing Business in China – Uncertainties with respect to PRC legal system could have a material adverse effect on us and limit the legal protection available to investors." Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a consolidated PRC Operating Entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of such proceeding if legal action becomes necessary. In addition, under PRC law, although rulings by arbitrators are final, if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only resort to PRC courts for enforcement of the arbitration awards through arbitration award recognition proceedings, which would require additional expenses and delay. In the event we are unable to enforce the Contractual Arrangements, or if we suffer significant delay or other obstacles in the process of enforcing the Contractual Arrangements, we may not be able to exert effective control over the PRC Operating Entity, and our ability to conduct our business may be negatively affected.

In addition, the shareholders of the PRC Operating Entity may be involved in personal disputes with third parties or other incidents that may have an adverse effect on their respective equity interests in the PRC Operating Entity and the validity or enforceability of our Contractual Arrangements with the PRC Operating Entity and its shareholders. For example, in the event that any of the shareholders of the PRC Operating Entity divorces his spouse, the spouse may claim that the equity interest of the PRC Operating Entity held by such shareholder is part of their community property and should be divided between such shareholder and his spouse. If such claim is supported by the court, the relevant equity interest may be obtained by the shareholder's spouse or another third party who is not subject to obligations under our Contractual Arrangements, which could result in a loss of the effective control over the PRC Operating Entity by us. Similarly, if any of the equity interests of the PRC Operating Entity is inherited by a third party with whom the current Contractual Arrangements are not binding, we could lose our control over the PRC Operating Entity or have to maintain such control by incurring unpredictable costs, which could cause significant disruption to our business and operations and harm our financial condition and results of operations.

We may lose the ability to use, or otherwise benefit from, the licenses, approvals and assets held by the PRC Operating Entity if the PRC Operating Entity declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.

The PRC Operating Entity and its subsidiaries contribute the majority of our revenues, and hold the majority of our operational assets and licenses, approvals and assets that are necessary for the operation of our business. The Contractual Arrangements contain terms that specifically obligate the equity holders of the PRC Operating Entity to ensure the valid existence of the PRC Operating Entity and restrict the disposition of material assets or any equity interest of the PRC Operating Entity. However, in the event the equity holders of the PRC Operating Entity breach the terms of the Contractual Arrangements and voluntarily liquidate the PRC Operating Entity, or the PRC Operating Entity declares bankruptcy and all or part of its assets become subject to liens or rights of third-party creditors, or are otherwise disposed of without our consent, we may be unable to operate some or all of our business or otherwise benefit from the assets held by the PRC Operating Entity, which could have a material adverse effect on our business, financial condition and results of operations. Furthermore, if the PRC Operating Entity undergoes a voluntary or involuntary liquidation proceeding, its equity holders or unrelated third-party creditors may claim rights to some or all of the assets of the PRC Operating Entity, thereby hindering our ability to operate our business as well as constraining our growth.

The shareholders of the PRC Operating Entity may have potential conflicts of interest with us.

The shareholders of the PRC Operating Entity may have actual or potential conflicts of interest with us. These shareholders may breach, or cause the PRC Operating Entity to breach, or refuse to renew, the Contractual Arrangements we have with them and the PRC Operating Entity, which would have a material and adverse effect on our ability to effectively control the PRC Operating Entity and receive economic benefits from them. For example, the shareholders may be able to cause our agreements with the PRC Operating Entity to be performed in a manner adverse to us by, among other things, failing to remit payments due under the Contractual Arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company, except that we could exercise our purchase option under the exclusive option agreements with these shareholders to request them to transfer all of their equity interests in the PRC Operating Entity to a PRC entity or individual designated by us, to the extent permitted by PRC law. For individuals who are also our directors and officers, we rely on them to abide by the laws of the Cayman Islands, which provide that directors and officers owe a fiduciary duty to the company that requires them to act in good faith and in what they believe to be the best interests of the company and not to use their position for personal gains. The shareholders of the PRC Operating Entity have executed powers of attorney to appoint Readboy Technology Zhongshan or a person designated by Readboy Technology Zhongshan to vote on their behalf and exercise voting rights as shareholders of the PRC Operating Entity. If we cannot resolve any conflict of interest or dispute between us and the shareholders of the PRC Operating Entity, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

RISKS RELATING TO DOING BUSINESS IN CHINA

PRC economic, political and social conditions as well as government policies could adversely affect our business and prospects.

Substantially all of our assets and operations are located in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by economic, political and social conditions in China generally. The PRC economy differs from the economies of most developed countries in many respects, including the level of development, growth rate, level of government involvement and control of foreign exchange and allocation of resources. The PRC government exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies. In addition, the PRC government continues to play a significant role in regulating industry development by imposing relevant industrial policies.

While the PRC economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. In addition, the rate of growth has been slowing since 2012, and the adverse impact of COVID-19 on the Chinese and global economies in 2020 and 2021 is severe and is expected to continue for a few years. Any adverse changes in economic conditions in China, in the policies of the PRC government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business and operating results, lead to reduction in demand for our solutions and services and adversely affect our competitive position. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the PRC government has implemented certain measures, including interest rate adjustment, to control the pace of economic growth. These measures may cause reduced economic activity in China, which may adversely affect our business and results of operations.

We rely to a significant extent on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have. Any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business or financial condition.

We are a holding company, and we principally rely on dividends and other distributions on equity that may be paid by our wholly-owned PRC subsidiaries and remittances from the PRC Operating Entity, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to the holders of our Shares and service any debt we may incur. If our wholly-owned PRC subsidiaries or the PRC Operating Entity incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us.

Under PRC laws and regulations, wholly foreign-owned enterprises in China may pay dividends only out of their retained earnings as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. Our PRC subsidiaries may also allocate a portion of their respective after-tax profits based on PRC accounting standards to discretional reserve funds. These reserve funds are not distributable as cash dividends. Any limitation on the ability of the PRC Operating Entity to make remittance to our wholly-owned PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

Restrictions on the remittance of RMB into and out of China and governmental control of currency conversion may limit our ability to pay dividends and other obligations, and affect the value of your [REDACTED].

The PRC government imposes controls on the convertibility of RMB into foreign currencies and the remittance of currency out of China. We receive substantially all of our revenue in RMB. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments of dividends declared in respect of our Shares, if any. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations.

Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural requirements. However, approval from or registration or filings with competent government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. Pursuant to the SAFE Circular 19, a foreign-invested enterprise may convert up to 100% of the foreign currency in its capital account into RMB on a discretionary basis according to the actual needs. The SAFE Circular 16 provides for an integrated standard for conversion of foreign exchange under capital account items on a discretionary basis, which applies to all enterprises registered in China. In addition, the SAFE Circular 16 has narrowed the scope of purposes for which an enterprise must not use the RMB funds so converted, which include, among others, (i) payment for expenditure beyond its business scope or otherwise as prohibited by the applicable laws and regulations, (ii) investment in securities or other financial products other than banks' principal-secured products, (iii) provision of loans to nonaffiliated enterprises, except where it is expressly permitted in the business scope of the enterprise, and (iv) construction or purchase of non-self-used real properties, except for real estate developers. The PRC government may at its discretion further restrict access to foreign currencies for current account transactions or capital account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency needs, we may not be able to pay dividends in foreign currencies to our Shareholders. Further, there is no assurance that new regulations will not be promulgated in the future that would have the effect of further restricting the remittance of RMB into or out of China.

Fluctuations in exchange rates could result in foreign currency exchange losses.

The value of RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government's policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the RMB and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals.

The [**REDACTED**] from the [**REDACTED**] will be received in Hong Kong dollars. As a result, any appreciation of the RMB against the Hong Kong dollar may result in the decrease in the value of our [**REDACTED**] from the [**REDACTED**]. Conversely, any depreciation of the RMB may adversely affect the value of, and any dividends payable on, the Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Furthermore, we are also currently required to obtain the SAFE's approval before converting significant sums of foreign currencies into RMB. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, the Shares in foreign currency terms.

It may be difficult to effect service of process upon us or our Directors or officers named in this document who reside in China or to enforce foreign court judgments against them in China.

Most of our assets are situated in China and most of our directors and officers named in this document reside in, and most of their respective assets are located in, China. As a result, it may be difficult to effect service of process outside China upon most of our directors and officers, including with respect to matters arising under applicable securities laws. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and many other countries. Consequently, it may be difficult for you to enforce against us or our directors or officers in China any judgments obtained from courts outside of China.

On July 14, 2006, Hong Kong and China entered into the Arrangement between the Courts of the Mainland and Courts of the Hong Kong Special Administrative Region on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters Where the Parties Involved Have an Choice of Court Agreement, or the Arrangement. Pursuant to the Arrangement, a final judgment on civil or commercial matters entered by Hong Kong courts can be recognized and enforced in China by application to a competent court of China if the judgment awards monetary payment and the parties thereto have agreed in writing to submit the matter exclusively to Hong Kong courts for resolution. Similarly, a final judgment entered by courts of China on civil or commercial matters are enforceable in Hong Kong if the judgment awards monetary payment and the parties thereto have agreed in writing to submit the matter exclusively to courts of China for resolution. In January 2019, Hong Kong and China entered into another arrangement on court judgment recognition and enforcement – the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region, or the New Arrangement – which no longer limits recognizable judgments to those granting monetary awards and whose parties have written and exclusive choice of forum agreement. The New Arrangement has yet come into effect and how it will be implemented remains uncertain.

It may be difficult for overseas regulators to conduct investigation or collect evidence within China.

Shareholder claims or regulatory investigation that are common in jurisdictions outside China are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in Hong Kong or other jurisdictions may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC, and without the consent by the Chinese securities regulatory authorities and the other competent governmental agencies, no entity or individual may provide documents or materials related to securities business to any foreign party. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China and the potential obstacles for information provision may further increase difficulties faced by you in protecting your interests.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our Shares prior to the [REDACTED], and you may not be able to resell our Shares at or above the price you pay, or at all.

Prior to the completion of the [**REDACTED**], there has been no public market for our Shares. There can be no guarantee that an active [**REDACTED**] for our Shares will develop or be sustained after completion of the [**REDACTED**]. The [**REDACTED**] is the result of negotiations between our Company and the [**REDACTED**] (for themselves and on behalf of the [**REDACTED**]), which may not be indicative of the [**REDACTED**] at which our Shares will be traded following completion of the [**REDACTED**]. The [**REDACTED**] of our Shares may drop below the [**REDACTED**] at any time after completion of the [**REDACTED**].

The [REDACTED] of the Shares may be volatile, which could result in substantial losses to you.

The [**REDACTED**] of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. A number of PRC-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performance of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards PRC-based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our directors, executive officers and Controlling Shareholders, could adversely affect the [REDACTED] of our Shares.

Future sales of a substantial number of our Shares, especially by our directors, executive officers and Controlling Shareholders, or the perception or anticipation of such sales, could negatively impact the [**REDACTED**] of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and [**REDACTED**] that we deem appropriate.

The Shares held by our Controlling Shareholders are subject to certain lock-up periods beginning on the date on which [**REDACTED**] in our Shares commences on the Stock Exchange. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future. In addition, certain existing shareholders of our Shares are not subject to lock-up agreements. Market sale of Shares by such shareholders and the availability of these Shares for future sale may have negative impact on the [**REDACTED**] of our Shares.

You will incur immediate and substantial dilution and may experience further dilution in the future.

As the [**REDACTED**] of Shares is higher than the net tangible book value per share of our Shares immediately prior to the [**REDACTED**], purchasers of our Shares in the [**REDACTED**] will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Shares in the [**REDACTED**] may experience further dilution in their shareholding percentage.

We cannot assure you that we will declare and distribute any amount of dividends in the future and you may have to rely on price appreciation of our Shares for return on your [REDACTED].

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we have not yet adopted a dividend policy with respect to future dividends. Therefore, you should not rely on an [**REDACTED**] in our Shares as a source for any future dividend income.

Our board of directors has discretion as to whether to distribute dividends, subject to certain restrictions under Cayman Islands law, namely that our Company may only pay dividends either out of profits or share premium account, and provided always that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts at they fall due in the ordinary course of business. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiary, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your [**REDACTED**] in our Shares will likely depend entirely upon any future price appreciation of our Shares. There is no guarantee that our Shares will appreciate in value or even maintain the [**REDACTED**] at which you purchased the Shares. You may not realize a return on your [**REDACTED**] in our Shares and you may even lose your entire [**REDACTED**] in our Shares.

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources, including the industry expert reports, contained in this document.

This document, particularly the section headed "Industry Overview," contains information and statistics relating to the smart learning device service market. Such information and statistics have been derived from third-party reports, either commissioned by us or publicly accessible, and other publicly available sources. The report prepared by Frost & Sullivan is based on information from its database, publicly available sources, industry reports, data obtained from interviews and other sources. We believe that the sources of the information in its report are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information from official government sources has not been independently verified by us, the Joint Sponsors, the [**REDACTED**], the [**REDACTED**], the [**REDACTED**] or any other party involved in the [**REDACTED**], and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the [REDACTED].

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the [**REDACTED**]. Prior to the publication of this document, there has been press and media coverage regarding us and the [**REDACTED**]. Such press and media coverage may include references to certain information that does not appear in this document, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it and you should not rely on such information.

There will be a time gap of several business days between [REDACTED] and [REDACTED] of our Shares [REDACTED] in the [REDACTED]. Holders of our Shares are subject to the risk that [REDACTED] of our Shares could fall during the period before [REDACTED] of our Shares begins.

The [**REDACTED**] of our Shares is expected to be determined on the [**REDACTED**]. However, our Shares will not commence [**REDACTED**] on the Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the [**REDACTED**]. As a result, [**REDACTED**] may not be able to [**REDACTED**] or [**REDACTED**] our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the [**REDACTED**] of our Shares could fall before [**REDACTED**] begins as a result of unfavorable market conditions, or other adverse developments, that could occur between the time of sale and the time [**REDACTED**] begins.