
SUMMARY

This summary aims to give you an overview of the information contained in this document and should be read in conjunction with the full text of this document. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole document, including our financial statements and the accompanying notes, before you decide to [REDACTED] in the [REDACTED]. There are risks associated with any investment. Some of the particular risks of investing in the [REDACTED] are set forth in “Risk Factors.” You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

OUR MISSION

Our mission is to evolve into a pre-eminent VET institution offering much-needed, well-targeted career empowerment services, leveraging people-centric philosophy, cutting-edge technology and high-caliber teachers (我們的使命是堅持以人為本的核心理念，用前沿科技賦能職業教育，用精良師資保障教學質量，努力成為匹配供需、服務精準的職業教育機構)。

OUR VISION

Our vision is to help each student acquire the skill to prevail and secure the job to last, and ultimately, empower students to accomplish their lifetime career goals and the society at large to prosper with talents (我們的願景是讓每一個學員技有所長，業有所就，實現自我職業夢想，為社會輸送高質量人才)。

OVERVIEW

We are a leading non-formal vocational education and training (“VET”) service provider in China, dedicated to making high-quality non-formal VET services accessible through technology and innovation. We provide a comprehensive suite of recruitment and qualification examination tutoring courses for adult students pursuing careers in government-sponsored institutions and a number of professions and industries. We help college graduates excel in the competitive selection process administered by governmental institutions. We help teachers, doctors and nurses obtain the relevant qualifications so that teachers can teach the young, doctors can doctor the sick and nurses can nurse the weak. Most importantly, we help our students advance their personal development and fulfill their own potentials. Leveraging our high-quality tutoring services, comprehensive course offerings, and student-centric teaching philosophy, we have successfully established “Fenbi” amid the most recognized brands in China’s career test preparation industry.

We have developed a comprehensive portfolio of career test preparation products and services that generate significant synergies. As a pioneer in China’s online career test preparation industry, we have developed high-quality online tutoring courses in live or pre-recorded format, supplemented by online self-learning materials and toolkits, which allowed us to quickly establish our online presence and build a trusted brand image among our users. We launched our offline classroom-based tutoring on a large-scale basis in May 2020 to expand our addressable market and serve a broader student base by accommodating their diversified learning habits. Leveraging our large user base and strong reputation accumulated from our online business, we are able to identify and convert users with offline education needs to offline enrollments, which allows us to expand our offline operations rapidly and effectively. Approximately 67.5% of all students who paid for our offline courses in 2021 were converted from students who had previously paid for our online offerings, and since their purchase of our offline courses and up to June 30, 2022, approximately 71.0% of such converted students had continued to pay for our online offerings. We have also established a robust, centralized operational system to ensure online-merge-offline (“OMO”) synergy and operational efficiency. As of June 30, 2022, our online platform had accumulated approximately 43.2 million registered users and 49.3 million online paid enrollments, and we had established an extensive offline network of local operational hubs covering over 220 cities across 31 provinces, autonomous regions and municipalities in China, with over 1.9 million offline paid enrollments.

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We offer effective learning experience and outcomes, which rests on our high-caliber teaching staff and systematic content development mechanism. We had a devoted team of 3,796 instructors as of June 30, 2022, substantially all of whom had a bachelor’s degree or above. Our instructors are capable of hosting high-quality live lectures for over 100,000 students in one class. Firsthand teaching experience is also critical for our high-quality content development as it allows us to react to the evolving market demands and the differentiated learning patterns. We have developed substantially all the content on our platform in-house, and most of our content development specialists routinely participate in frontline teaching activities. As a result, we are able to formulate well-designed curricula and learning materials to facilitate an effective learning experience for students. Furthermore, the abundant teaching experience of our content development team, combined with our robust big data analytics, forms a solid foundation for us to continuously refine our course materials and teaching techniques.

Technological innovation underpins our success and strong brand name. We believe we have spearheaded the intelligent development of China’s career test preparation industry. According to the F&S Report, we were a pioneer in adopting many innovations in the recruitment examination tutoring industry, including the launch of a comprehensive online training mobile app in December 2013; the provision of systematic civil servants examination tutoring services through online channels in September 2014; the in-house development of an RTC video system in December 2014; the launch of a comprehensive online question bank in June 2015; and the adoption of multiple advanced technology applications, such as the intelligent grade prediction, the automated essay grading, the large-scale online mock examination system, the intelligent content recommendation and the photo-based question search engine with a full subject coverage.

We experienced significant growth during the Track Record Period. The total paid enrollments of our tutoring courses and online products increased from 6.0 million in 2019 to 9.6 million in 2020 and further to 9.8 million in 2021. We had total paid enrollments of our tutoring courses and online products of 4.1 million in the six months ended June 30, 2022. The paid enrollments of our formal courses increased from 1.4 million in 2019 to 1.8 million in 2020 and further to 2.6 million in 2021. We had total paid enrollments of our formal courses of 1.2 million in the six months ended June 30, 2022. During the Track Record Period, we generated revenue primarily from the provision of tutoring services, and to a lesser extent, from the sales of in-house developed textbooks and learning materials. Our revenue increased by 83.7% from RMB1,160.3 million in 2019 to RMB2,132.1 million in 2020, and further increased by 60.8% to RMB3,428.6 million in 2021. We generated revenue of RMB1,451.0 million in the six months ended June 30, 2022. We recorded net profit of RMB154.1 million in 2019 and net loss of RMB484.5 million, RMB2,046.0 million and RMB391.8 million in 2020, 2021 and the six months ended June 30, 2022, respectively. We recorded adjusted net profit of RMB175.2 million in 2019, adjusted net loss of RMB362.8 million and RMB822.4 million in 2020 and 2021, respectively, and adjusted net profit of RMB95.6 million in the six months ended June 30, 2022. See “Financial Information — Non-IFRS Measure” for a reconciliation of our profit/loss for the year/period to adjusted net profit/loss.

MARKET OPPORTUNITY

VET can improve a job-seeker’s chances of securing his or her intended jobs as competition in China’s job market has become increasingly intensified in recent years. In 2021, there were 10.8 million graduates of higher education in China, according to the F&S Report. As such, an increasing number of job-seekers seek to improve their competitiveness and increase their chances of attaining preferred job positions through high-quality tutoring services. Moreover, recent favorable governmental policies, such as the Opinions on Promoting the High-quality Development of Modern Vocational Education and Training (關於推動現代職業教育高質量發展的意見) jointly released by the General Office of the CPC Central Committee and the General Office of the State Council, aim to facilitate the orderly development of China’s VET industry. According to the F&S Report, China’s non-formal VET industry, in terms of revenue, is expected to increase from RMB221.5 billion in 2021 to RMB331.7 billion in 2026 at a CAGR of 8.4%.

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China’s non-formal VET consists of career test preparation and vocational skill training. In addition to favorable governmental policies and intensified competition, China’s career test preparation industry has been, and will continue to be, driven by technological innovation, service upgrade and OMO integration. According to the F&S Report, the market size, in terms of revenue, increased from RMB32.5 billion in 2016 to RMB69.1 billion in 2021 at a CAGR of 16.3% and is expected to reach RMB110.2 billion in 2026 at a CAGR of 9.8% from 2021 to 2026. The unique student enrollments of China’s career test preparation industry increased from 9.1 million in 2016 to 16.2 million in 2021 at a CAGR of 12.2% and are expected to reach 22.4 million in 2026 at a CAGR of 6.7% from 2021 to 2026, according to the same source. As such, we believe we are well-positioned to capture the enormous market opportunities with our early-mover advantage, robust business model, strong operation capability, and dedication to innovation.

COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed to our success and differentiated us from our competitors: (1) leading non-formal VET service provider in China with strong innovation capability and brand recognition; (2) largest online platform for career test preparation with a massive user base; (3) scalable and synergistic business model featuring highly innovative, OMO integration; (4) effective learning experience rooted in strong content development capability and high-caliber teaching staff; (5) operational excellence empowered by robust technological innovations and data analytics; and (6) visionary and seasoned management team.

GROWTH STRATEGIES

We intend to pursue the following key strategies to grow our business sustainably and maintain our market leadership: (1) continue to strengthen our reputation by enhancing teaching and service quality; (2) enrich course offerings and explore innovative course delivery modes; (3) strengthen our technologies and data analytics capability; and (4) pursue strategic alliances, investments and acquisitions.

KEY OPERATING AND FINANCIAL METRICS

The following table sets forth a summary of our paid enrollments and average gross billings per paid enrollment for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB except for the paid enrollments)				
Paid enrollments:					
Online learning products					
Membership package (<i>million</i>)	0.8	1.5	1.5	0.8	1.1
Challenge exercise (<i>million</i>)	0.2	0.5	0.5	0.3	0.3
Online tutoring courses					
Formal courses (<i>million</i>)	1.3	1.5	2.2	1.1	1.1
Systematic courses	708,000	841,000	1,386,000	691,000	615,000
Premium courses	—	21,000	111,000	53,000	104,000
Special courses	605,000	612,000	702,000	377,000	412,000
Promotional courses (<i>million</i>)	3.7	5.4	4.7	2.6	1.3
Classroom-based tutoring courses					
Formal courses	48,000	293,000	398,000	287,000	110,000
Promotional courses	23,000	416,000	438,000	310,000	96,000
Total (<i>million</i>)	6.0	9.6	9.8	5.5	4.1

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	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB except for the paid enrollments)				
Average gross billings per paid enrollment:					
Online learning products					
Membership package	62	55	49	48	44
Challenge exercise	296	338	305	306	302
Online tutoring courses					
Formal courses	726	713	839	859	861
Systematic courses	821	759	609	664	595
Premium courses	—	7,447	7,135	7,568	4,746
Special courses	614	416	302	283	275
Promotional courses	7	8	13	14	9
Classroom-based tutoring courses					
Formal courses	12,001	9,477	10,984	11,155	8,646
Promotional courses	20	25	73	71	53

The paid enrollments of our online formal courses increased steadily from 1.3 million in 2019 to 1.5 million in 2020 and further to 2.2 million in 2021, and remained relatively stable at 1.1 million in the six months ended June 30, 2021 and 2022. Specifically, the paid enrollments of our online systematic courses increased steadily during the Track Record Period as we built up our brand and continued to diversify our course offerings, except for the impact of the COVID-19 resurgence in the first half of 2022, which led to the postponement of certain examinations and, accordingly, adjustments in students’ examination preparation cycles. The paid enrollments of our online premium courses increased from nil in 2019 to 21,000 in 2020 and further to 111,000 in 2021, primarily due to the launch and increased offering of our online premium courses since June 2020. The paid enrollments of our online premium courses increased from 53,000 in the six months ended June 30, 2021 to 104,000 in the six months ended June 30, 2022, primarily because we continued to develop and diversify our course offerings to cater to different examination sectors, despite the impact of the COVID-19 resurgence in the first half of 2022. The paid enrollments of our online promotional courses decreased from 5.4 million in 2020 to 4.7 million in 2021, and the paid enrollments of our online learning products remained stable in 2020 and 2021, primarily because we strategically focused on converting prospective students to paid enrollments for our online formal courses in 2021, leveraging our established brand name and platform. Similarly, the paid enrollments of our online promotional courses decreased from 2.6 million in the six months ended June 30, 2021 to 1.3 million in the six months ended June 30, 2022.

The total paid enrollments of our classroom-based tutoring courses increased from 71,000 in 2019 to 710,000 in 2020 and further to 836,000 in 2021, as we began to provide classroom-based tutoring courses on a trial basis in April 2017 and launched our classroom-based tutoring on a large-scale basis in May 2020. Specifically, the paid enrollments of our classroom-based formal courses increased from 48,000 in 2019 to 293,000 in 2020 and further to 398,000 in 2021, while the paid enrollments of our classroom-based promotional courses remained relatively stable at 416,000 and 438,000 in 2020 and 2021, respectively, primarily because we began to strategically focus on converting prospective students to paid enrollments for our classroom-based formal courses in 2021. The total paid enrollments of our classroom-based tutoring courses decreased from 597,000 in the six months ended June 30, 2021 to 206,000 in the six months ended June 30, 2022, primarily because (1) we strategically adjusted the scale of our offline coverage to effectively manage our growth and improve our profitability, thereby reducing the number of our operational hubs from 363 as of December 31, 2021 to 276 as of June 30, 2022, and (2) amid the regional resurgence of the COVID-19 pandemic in the first half of 2022, certain examinations were postponed, and we suspended our classroom-based tutoring services in certain localities.

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The average gross billings per paid enrollment for online formal courses decreased from 2019 to 2020, primarily due to the increased offering of public institution employees examination tutoring courses and teacher qualification and recruitment tutoring courses that had relatively lower course fees as compared to civil servants examination tutoring courses. In addition, the average gross billings per paid enrollment for online special courses was relatively higher in 2019 as compared to those in 2020 and 2021, primarily because we offered certain special courses with relatively high course fees in 2019, which were discontinued thereafter.

The average gross billings per paid enrollment for online systematic courses and premium courses decreased from 2020 to 2021 and from the six months ended June 30, 2021 to the six months ended June 30, 2022, primarily because we continued to increase the offering of public institution employees examination tutoring courses, teacher qualification and recruitment tutoring courses and other test preparation courses that had relatively lower course fees as compared to civil servants examination tutoring courses. For example, during the Track Record Period, our online systematic courses for civil servants examination were generally priced between RMB880 to RMB980, whereas our online systematic courses for other examination subjects were generally priced between RMB99 to RMB600. Similarly, our online premium courses for civil servants examination were generally priced between RMB3,200 to RMB49,800, whereas our online premium courses for other examination subjects were generally priced between RMB980 to RMB30,000. The decrease in the average gross billings per paid enrollment for online premium courses was also caused by the reduced offering of relatively higher-priced contractual classes that are subject to full refund for no-pass since the second half of 2021. The average gross billings per paid enrollment for online special courses decreased from 2020 to 2021 and from the six months ended June 30, 2021 to the six months ended June 30, 2022, primarily because an increasing number of relatively higher-priced special courses had been upgraded as premium courses since 2020 as they gained wide market acceptance as a result of our continued optimization of such courses with learning content upgrade. The average gross billings per paid enrollment for online systematic courses, premium courses and special courses may continue to fluctuate in the near future. We will closely monitor the changes in market demand and industry trends in order to swiftly adjust our pricing level and service offering mix.

As we focused more on increasing paid enrollments for our relatively higher-priced online premium courses in 2021 and the six months ended June 30, 2022, the overall average gross billings per paid enrollment for online formal courses increased from 2020 to 2021 and from the six months ended June 30, 2021 to the six months ended June 30, 2022, despite the respective decreases in the average gross billings per paid enrollment for online systematic courses, premium courses and special courses as discussed above.

The average gross billings per paid enrollment for classroom-based formal courses decreased from 2019 to 2020, primarily because following the launch of classroom-based tutoring on a large-scale basis in May 2020, we began to offer a more comprehensive portfolio of courses, which included courses with relatively low course fees that we did not offer in 2019. The average gross billings per paid enrollment for classroom-based formal courses increased from 2020 to 2021, primarily because we focused more on increasing paid enrollments for our classroom-based contractual classes that were priced relatively higher in 2021. The average gross billings per paid enrollment for classroom-based formal courses decreased from the six months ended June 30, 2021 to the six months ended June 30, 2022, primarily due to the reduced offering of relatively higher-priced written test contractual classes that are subject to full refund for no-pass since the second half of 2021.

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The following table sets forth the breakdown of our revenue by business line and course type for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(RMB in thousands, except for the percentages)										
(Unaudited)										
TUTORING SERVICES										
Online tutoring										
Online learning products . . .	59,152	5.1	160,205	7.4	146,913	4.3	89,108	4.7	87,794	6.1
Membership package . . .	38,271	3.3	78,269	3.6	69,734	2.0	39,346	2.1	45,398	3.1
Challenge exercise . . .	20,881	1.8	81,936	3.8	77,179	2.3	49,762	2.6	42,396	3.0
Online tutoring courses . . .	598,280	51.6	826,027	38.8	1,249,212	36.4	589,701	31.3	629,037	43.3
Formal courses	574,758	49.6	801,512	37.7	1,193,269	34.8	556,501	29.5	618,852	42.6
Systematic courses	433,600	37.4	534,715	25.1	655,361	19.1	338,113	17.9	307,378	21.2
Premium courses	—	—	50,235	2.4	332,433	9.7	124,996	6.6	210,640	14.5
Special courses	141,158	12.2	216,562	10.2	205,475	6.0	93,392	5.0	100,834	6.9
Promotional courses	23,522	2.0	24,515	1.1	55,943	1.6	33,200	1.8	10,185	0.7
Subtotal of online tutoring . . .	657,432	56.7	986,232	46.2	1,396,125	40.7	678,809	36.0	716,831	49.4
Classroom-based tutoring										
Formal courses	354,141	30.5	881,335	41.4	1,596,180	46.6	993,704	52.7	519,017	35.8
Promotional courses	306	0.0	5,165	0.2	21,150	0.6	11,760	0.6	4,517	0.3
Subtotal of classroom-based tutoring	354,447	30.5	886,500	41.6	1,617,330	47.2	1,005,464	53.3	523,534	36.1
SUBTOTAL OF TUTORING SERVICES	1,011,879	87.2	1,872,732	87.8	3,013,455	87.9	1,684,273	89.3	1,240,365	85.5
SALES OF BOOKS	148,436	12.8	259,342	12.2	415,104	12.1	201,144	10.7	210,667	14.5
TOTAL	1,160,315	100.0	2,132,074	100.0	3,428,559	100.0	1,885,417	100.0	1,451,032	100.0

The following table sets forth a summary of our average revenue per paid enrollment for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB)				
Average revenue per paid enrollment:					
Online learning products					
Membership package	50	52	46	47	41
Challenge exercise	124	154	146	153	131
Online tutoring courses					
Formal courses	438	543	543	497	547
Systematic courses	613	636	473	489	500
Premium courses	—	2,364	3,005	2,381	2,019
Special courses	233	354	293	247	245
Promotional courses	6	5	12	13	8
Classroom-based tutoring courses					
Formal courses	7,377	3,005	4,010	3,457	4,729
Promotional courses	13	12	48	38	47

The average revenue per paid enrollment for online formal courses increased from 2019 to 2020, whereas the corresponding average gross billings per paid enrollment decreased during the same period, primarily because we offered contractual classes with a relatively long service period in 2019, for which all gross billings were recorded in 2019, while only a portion of the gross billings corresponding to the services delivered in 2019 was recognized as revenue in the same year. The average revenue per paid enrollment for online special courses followed the same trend for similar reasons. We have strategically ceased to sell such contractual classes since early 2020. The average revenue per paid enrollment for online systematic courses increased from 2019 to 2020 and from the six months ended June 30, 2021 to the six months ended June 30, 2022, whereas the corresponding average gross billings per paid enrollment decreased during the same period, primarily because we recognize revenue

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generated from online systematic courses over the relevant service periods, which may cause delay in revenue recognition compared with receipt of gross billings, as they could be affected by, among others, the difference in the timing of the relevant examinations and, accordingly, students' purchases. The average revenue per paid enrollment for online premium courses increased from 2020 to 2021, whereas the corresponding average gross billings per paid enrollment decreased during the same period, primarily because we had reduced the proportion of the course fees of contractual classes that are subject to refund for no-pass since the second half of 2021. Similarly, the average revenue per paid enrollment for classroom-based formal courses increased from the six months ended June 30, 2021 to the six months ended June 30, 2022, whereas the corresponding average gross billings per paid enrollment decreased during the same period, primarily because we adjusted our business development strategies, and as a result, reduced the proportion of the course fees of contractual classes that are subject to refund for no-pass and the offering of written test contractual classes that are subject to full refund for no-pass since the second half of 2021. The average revenue per paid enrollment for classroom-based promotional courses increased from the six months ended June 30, 2021 to the six months ended June 30, 2022, whereas the corresponding average gross billings per paid enrollment decreased during the same period, primarily because in the six months ended June 30, 2021, in order to promote our classroom-based tutoring services, we provided certain promotional courses that allowed for refund if the students completed the courses or purchased formal courses, which resulted in a relatively higher average gross billings per paid enrollment yet a relatively lower average revenue per paid enrollment.

The following table sets forth the number of our full-time instructors and the ratio of paid enrollments per instructor as of the dates and for the periods indicated.

	As of/for the year ended December 31,			As of/for the six months ended June 30,
	2019	2020	2021	2022
Number of instructors:				
Online tutoring courses	114	2,665	2,502	2,649
Classroom-based tutoring courses	602	3,887	2,018	1,147
Total	716	6,552	4,520	3,796
Ratio of paid enrollments per instructor⁽¹⁾:				
Online tutoring courses	61,404	4,930	2,673	1,925 ⁽²⁾
Classroom-based tutoring courses	159	316	283	260 ⁽²⁾
Average revenue per instructor⁽³⁾:				
Online tutoring courses (RMB)	7,386,173	594,478	483,535	488,478 ⁽²⁾
Classroom-based tutoring courses (RMB)	794,724	394,965	547,783	661,654 ⁽²⁾

(1) Calculated based on the paid enrollments of tutoring courses for the relevant period divided by the average number of full-time instructors for the same period. The average number of instructors for a certain period is calculated by adding the number of instructors at the beginning of the period and the number of instructors at the end of the period, divided by two. We had 338 instructors as of January 1, 2019, comprising 48 instructors for online tutoring courses and 290 instructors for classroom-based tutoring courses.

(2) These figures have been provided on an annualized basis solely for the purpose of facilitating comparison with prior years, and may not be indicative of actual results.

(3) Calculated based on the revenue of tutoring courses for the relevant period divided by the average number of full-time instructors for the same period.

The number of instructors increased significantly from 716 as of December 31, 2019 to 6,552 as of December 31, 2020 as a result of our offline expansion, launch of premium courses and business growth efforts. The number of our instructors decreased to 4,520 as of December 31, 2021 and further to 3,796 as of June 30, 2022, as we optimized our employee structure in 2021 and the first half of 2022 in an effort to improve our operational efficiency and profitability.

The ratio of paid enrollments per instructor for our online tutoring courses decreased from 61,404 in 2019 to 4,930 in 2020, primarily because we expanded our teaching team to support the launch of our premium courses in June 2020, which features a relatively lower student-instructor ratio in order to deliver more individualized learning experience, as compared to systematic courses. For example, during the Track Record Period, our online systematic courses for written tests typically had an average

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of 1,000 to 4,000 students, while our online premium courses for written tests typically had an average of 20 to 400 students. The ratio of paid enrollments per instructor for our online tutoring courses continued to decrease to 2,673 in 2021, primarily due to the increased offering of our online premium courses. The ratio further decreased to 1,925 in the six months ended June 30, 2022, primarily due to a decrease in the paid enrollments of our online promotional courses, which were 1.3 million in the six months ended June 30, 2022 as compared to 4.7 million in 2021, in addition to the increased offering of our online premium courses. We believe our offering of online premium courses can effectively capture the demands of students who require more individual attention and targeted support, allowing us to increase our market share. The course fees of the online premium courses are generally higher than that of the online systematic courses on the same subject, and the revenue contribution of our online premium courses continuously increased during the Track Record Period. Meanwhile, although the average revenue per instructor for online tutoring courses decreased from 2019 to 2021 as we expanded our teaching team to support the launch and increased offering of our premium courses, such average revenue per instructor began to increase thereafter, despite the decrease in the ratio of paid enrollments per instructor for online courses, indicating the improved earning power of our business as a result of, in particular, our online premium courses.

The ratio of paid enrollments per instructor for our classroom-based tutoring courses increased from 2019 to 2020, primarily due to the significant growth of our offline paid enrollments, particularly following the launch of our offline classroom-based tutoring on a large-scale basis in May 2020. This ratio decreased slightly from 2020 to 2021, primarily because we had been expanding our offline teaching team in response to the increased demand for offline tutoring, which resulted in a significantly higher number of instructors at the beginning of 2021 as compared to the beginning of 2020. To effectively manage our growth and improve our profitability, we subsequently optimized our employee structure in 2021 and sought to increase the utilization and efficiency of our teaching staff going forward. The ratio of paid enrollments per instructor for our classroom-based tutoring courses further decreased to 260 in the six months ended June 30, 2022, primarily due to the decreased paid enrollments of our classroom-based tutoring courses as a result of (1) the strategic adjustment of the scale of our offline coverage, and (2) the impact of the regional resurgence of the COVID-19 pandemic. The average revenue per instructor for classroom-based tutoring courses decreased from 2019 to 2020, primarily because we expanded our teaching team to support the launch of our classroom-based tutoring on a large-scale basis in May 2020. Such average revenue per instructor increased steadily thereafter, despite the decrease in the ratio of paid enrollments per instructor for offline courses, indicating the stable and sustained development of our offline operations.

CUSTOMERS AND SUPPLIERS

Our customers primarily include our students and, to a much lesser extent, third-party book vendors who purchased our textbooks and learning materials. Revenue generated from our top five customers accounted for 1.1%, 1.2%, 1.6% and 2.8% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. Our suppliers primarily include suppliers for paper, third-party vendors for human resource services, publishing services, printing services, marketing services and information technology services, as well as providers of the premises we occupy for our classroom-based tutoring. Purchase from our top five suppliers accounted for 49.0%, 31.9%, 16.6% and 22.2% of our total purchases in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively, and purchase from our largest supplier accounted for 14.7%, 13.3%, 4.1% and 8.2% of our total purchases in the same periods, respectively. Except for one top five supplier in the six months ended June 30, 2022 who was also one top five customer in 2021 and the six months ended June 30, 2022, none of our major customers was our major supplier during the Track Record Period. See “Business — Our Customers and Suppliers” for details.

RISKS AND CHALLENGES

Our business and operations involve certain risks and uncertainties including those set out in the “Risk Factors” section in this document. We may have difficulty in managing our growth effectively. We have a limited operating history with our OMO integration model, which makes it difficult to forecast our revenue growth and evaluate our business and prospects. We may fail to continue to attract students and increase their purchases and spending with us. We may also fail to continue to engage, train and retain qualified teaching staff to maintain consistent teaching quality. We may not be able to

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develop appealing content offerings in a timely and cost-effective manner, or develop and apply advanced technologies to support and optimize our online products and services. Excessive refunds or potential refund disputes may negatively affect our results of operations, financial condition and reputation. We recognize variable consideration received for our contractual and non-contractual classes in relation to certain course subjects based on our reasonable estimates of the expected refund rates, which brings uncertainty to our revenue recognition and may have a negative impact on our results of operations and financial condition. As different investors may have different interpretations and criteria when determining the significance of a risk, you should carefully read the “Risk Factors” section in its entirety before you decide to [REDACTED] in our Shares.

SUMMARY OF FINANCIAL INFORMATION

The following tables present the summary of our financial information for the Track Record Period and should be read in conjunction with our financial information included in the Accountant’s Report in Appendix I to this document, including the notes thereto.

Summary of Consolidated Statements of Profit or Loss

The following table sets forth a summary of our consolidated statements of profit or loss for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue
	(RMB in thousands except for percentages)									
	(Unaudited)									
Revenue	1,160,315	100.0	2,132,074	100.0	3,428,559	100.0	1,885,417	100.0	1,451,032	100.0
Cost of sales	(624,073)	(53.8)	(1,642,142)	(77.0)	(2,587,692)	(75.5)	(1,562,874)	(82.9)	(761,721)	(52.5)
Gross profit	536,242	46.2	489,932	23.0	840,867	24.5	322,543	17.1	689,311	47.5
Administrative expenses	(142,424)	(12.3)	(484,342)	(22.7)	(1,119,886)	(32.7)	(579,719)	(30.7)	(264,922)	(18.3)
Selling and marketing expenses	(116,191)	(10.0)	(404,896)	(19.0)	(704,125)	(20.5)	(385,853)	(20.5)	(253,142)	(17.4)
Research and development expenses	(104,117)	(9.0)	(124,389)	(5.8)	(286,959)	(8.4)	(111,667)	(5.9)	(85,348)	(5.9)
Net impairment losses on financial assets and contract assets	(24)	(0.0)	(923)	(0.0)	(641)	(0.0)	(1,489)	(0.1)	(89)	(0.0)
Other income	7,823	0.7	9,776	0.4	25,005	0.7	9,900	0.5	12,160	0.8
Other gains/(losses), net	4,739	0.4	3,554	0.1	1,226	0.0	18,361	1.0	(67,118)	(4.6)
Operating profit/(loss)	186,048	16.0	(511,288)	(24.0)	(1,244,513)	(36.3)	(727,924)	(38.6)	30,852	2.1
Fair value losses of financial liabilities at fair value through profit or loss	—	—	—	—	(582,957)	(17.0)	(19,698)	(1.1)	(383,799)	(26.5)
Loss on settlement of financial liabilities at fair value through profit or loss	—	—	—	—	(212,760)	(6.2)	(212,760)	(11.3)	—	—
Finance income	1,153	0.1	1,357	0.1	2,304	0.1	1,317	0.1	2,508	0.2
Finance costs	(3,165)	(0.3)	(7,236)	(0.4)	(20,003)	(0.6)	(11,217)	(0.6)	(10,810)	(0.7)
Finance costs, net	(2,012)	(0.2)	(5,879)	(0.3)	(17,699)	(0.5)	(9,900)	(0.5)	(8,302)	(0.5)
Profit/(loss) before income tax	184,036	15.8	(517,167)	(24.3)	(2,057,929)	(60.0)	(970,282)	(51.5)	(361,249)	(24.9)
Income tax (expense)/credit	(29,966)	(2.5)	32,695	1.6	11,958	0.3	24,769	1.3	(30,521)	(2.1)
Profit/(loss) for the year/period	154,070	13.3	(484,472)	(22.7)	(2,045,971)	(59.7)	(945,513)	(50.2)	(391,770)	(27.0)
Non-IFRS Measure⁽¹⁾ Adjusted profit/(loss)	175,241	15.1	(362,835)	(17.0)	(822,357)	(24.0)	(540,752)	(28.7)	95,632	6.6

(1) See “Financial Information — Non-IFRS Measure” for a reconciliation of our profit/loss for the year to adjusted net profit/loss.

SUMMARY

Revenue

During the Track Record Period, we generated revenue primarily from the provision of tutoring services, and to a lesser extent, from the sales of in-house developed textbooks and learning materials. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our total revenue was RMB1,160.3 million, RMB2,132.1 million, RMB3,428.6 million, RMB1,885.4 million and RMB1,451.0 million, respectively.

The following table sets forth a breakdown of our revenue by business line for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	% of Total	RMB	% of Total	RMB	% of Total	RMB	% of Total	RMB	% of Total
	(RMB in thousands except for percentages)									
	(Unaudited)									
Tutoring services										
Online tutoring ⁽¹⁾	657,432	56.7	986,232	46.2	1,396,125	40.7	678,809	36.0	716,831	49.4
Classroom-based tutoring	354,447	30.5	886,500	41.6	1,617,330	47.2	1,005,464	53.3	523,534	36.1
Subtotal	1,011,879	87.2	1,872,732	87.8	3,013,455	87.9	1,684,273	89.3	1,240,365	85.5
Sales of books	148,436	12.8	259,342	12.2	415,104	12.1	201,144	10.7	210,667	14.5
Total	1,160,315	100.0	2,132,074	100.0	3,428,559	100.0	1,885,417	100.0	1,451,032	100.0

(1) Includes revenue generated from online tutoring courses and other online learning products (i.e., membership package and challenge exercise).

The following table sets forth a breakdown of our revenue generated from tutoring services by examination sector for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	% of Total	RMB	% of Total	RMB	% of Total	RMB	% of Total	RMB	% of Total
	(RMB in thousands except for percentages)									
	(Unaudited)									
Civil servants examination tutoring	799,415	79.0	1,438,322	76.8	2,062,865	68.5	1,136,759	67.5	828,682	66.8
Public institution employees examination tutoring	114,121	11.3	279,009	14.9	586,796	19.5	356,665	21.2	244,249	19.7
Teacher qualification and recruitment tutoring	53,413	5.3	102,973	5.5	251,947	8.4	138,542	8.2	127,803	10.3
Other test preparation	44,930	4.4	52,428	2.8	111,847	3.7	52,307	3.1	39,631	3.2
Total revenue generated from tutoring services	1,011,879	100.0	1,872,732	100.0	3,013,455	100.0	1,684,273	100.0	1,240,365	100.0

SUMMARY

The following table sets forth a breakdown of our revenue generated from classroom-based tutoring services by region for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	% of Total	RMB	% of Total	RMB	% of Total	RMB	% of Total	RMB	% of Total
	(RMB in thousands except for percentages)									
	(Unaudited)									
Eastern China region	103,551	29.2	229,266	25.9	380,500	23.5	198,171	19.7	71,665	13.7
Northern China region	74,926	21.1	168,585	19.0	269,072	16.6	177,511	17.7	79,094	15.1
Southern China region	70,962	20.0	116,257	13.1	259,816	16.1	166,985	16.6	93,713	17.9
Northwestern China region	40,682	11.5	114,109	12.9	245,956	15.2	172,993	17.2	98,372	18.8
Northeastern China region	32,450	9.2	114,038	12.9	198,714	12.3	129,872	12.9	56,800	10.8
Southwestern China region	31,876	9.0	144,245	16.2	263,272	16.3	159,932	15.9	123,890	23.7
Total revenue generated from classroom-based tutoring services	354,447	100.0	886,500	100.0	1,617,330	100.0	1,005,464	100.0	523,534	100.0

Gross profit and gross margin

In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our gross profit was RMB536.2 million, RMB489.9 million, RMB840.9 million, RMB322.5 million and RMB689.3 million, respectively, representing a gross profit margin of 46.2%, 23.0%, 24.5%, 17.1% and 47.5% for the same periods, respectively.

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

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	Gross Margin (%)	RMB	Gross Margin (%)	RMB	Gross Margin (%)	RMB	Gross Margin (%)	RMB	Gross Margin (%)
	(RMB in thousands except for percentages)									
	(Unaudited)									
Tutoring services										
Online tutoring	396,293	60.3	491,982	49.9	715,649	51.3	283,937	41.8	431,991	60.3
Classroom-based tutoring	90,145	25.4	(98,584)	(11.1)	(4,910)	(0.3)	(18,644)	(1.9)	190,216	36.3
Subtotal	486,438	48.1	393,398	21.0	710,739	23.6	265,293	15.8	622,207	50.2
Sales of books	49,804	33.6	96,534	37.2	130,128	31.3	57,250	28.5	67,104	31.9
Total	536,242	46.2	489,932	23.0	840,867	24.5	322,543	17.1	689,311	47.5

The gross profit margin of our online tutoring services decreased from 60.3% in 2019 to 49.9% in 2020, as the revenue growth was outpaced by the increase in our costs of sales in relation to online tutoring services, primarily due to (1) the expansion of our teaching team to support the launch of our premium courses, which resulted in increased employee benefit expenses, and (2) the launch of premium courses in June 2020, which have a relatively lower student-instructor ratio as compared to online systematic courses. We recorded gross margin of (11.1)% for our classroom-based tutoring services in 2020, as compared to gross margin of 25.4% in 2019, as the revenue growth was outpaced by the increase in our costs of sales in relation to classroom-based tutoring services, primarily because (1) we incurred substantial costs to support the launch of our classroom-based tutoring on a large-scale basis in May 2020, and (2) we launched various promotional courses priced at below RMB500 as part of our offline expansion initiatives to attract students. The gross profit margin of our sales of books increased from 33.6% in 2019 to 37.2% in 2020, primarily due to greater economies of scale.

SUMMARY

The gross profit margin of our online tutoring services remained relatively stable at 49.9% and 51.3% in 2020 and 2021, respectively. We recorded gross margin of (0.3)% for our classroom-based tutoring services in 2021, as compared to gross margin of (11.1)% in 2020, primarily because we optimized our employee structure for classroom-based tutoring in an effort to improve our operational efficiency and profitability. The gross profit margin of our sales of books decreased from 37.2% in 2020 to 31.3% in 2021, primarily because the market price of paper increased due to market demands while the standalone retail prices of our books and learning materials remained relatively stable.

The gross profit margin of our online tutoring services increased from 41.8% in the six months ended June 30, 2021 to 60.3% in the six months ended June 30, 2022, primarily because we optimized our employee structure for online tutoring and enhanced our cost control measures in an effort to improve our operational efficiency and profitability. The gross margin of our classroom-based tutoring services increased from (1.9)% in the six months ended June 30, 2021 to 36.3% in the six months ended June 30, 2022, primarily because we optimized our employee structure for classroom-based tutoring and adjusted the scale of our offline coverage in an effort to improve our operational efficiency and profitability. The gross margin of our sales of books increased from 28.5% in the six months ended June 30, 2021 to 31.9% in the six months ended June 30, 2022, primarily because the cost of course materials decreased as a result of the combined effect of the decreased procurement price of paper and the launch and scale-up of our in-house printing facilities since March 2021, despite our revenue growth.

See “Financial Information — Period to Period Comparison of Results of Operations” for details.

Profit/Loss for the period

We recorded net profit of RMB154.1 million in 2019 and net loss of RMB484.5 million, RMB2,046.0 million, RMB945.5 million and RMB391.8 million in 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. A significant component of our cost of sales and operating expenses is employee benefit expenses, which increased significantly during the Track Record Period in support of our business growth and expansion. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our total employee benefit expenses were RMB338.4 million, RMB1,173.3 million, RMB2,719.2 million, RMB1,411.7 million and RMB771.3 million, respectively, representing 29.2%, 55.0%, 79.3%, 74.9% and 53.2% of our total revenue of the same periods, respectively, primarily due to headcount changes as we were expanding our course product offerings and coverage of examination subjects. Particularly, the number of our full-time employees increased significantly from 1,592 as of December 31, 2019 to 12,803 as of December 31, 2020 and further to approximately 16,800 as of March 31, 2021. The headcount increase has not resulted in an immediate and proportional growth in our revenue in the same period, as we generally require newly hired teaching staff to undergo systematic onboarding training sessions before delivering courses. To effectively manage our growth and improve our profitability, we optimized the structure of our employee team, which comprised 8,964 members as of December 31, 2021 and 7,388 members as of June 30, 2022. In addition, the impact of the COVID-19 pandemic on our offline operations, as well as the delay of certain recruitment and qualification examinations due to the pandemic, had adversely affected our results of operations in the short run. Moreover, we incurred significant share-based payments, fair value losses on financial liabilities at fair value through profit or loss, and loss on settlement of financial liabilities at fair value through profit or loss during the Track Record Period, particularly in 2021 and the six months ended June 30, 2022. Excluding the impact of such non-recurring and non-operating items, we had recognized adjusted net profit in the six months ended June 30, 2022. See “— Non-IFRS measure.”

SUMMARY

We have formulated and begun to implement specific strategies and concrete plans to improve our profitability and operating cash flows, such as expanding our course offerings and refining our online products and toolkits, increasing the utilization level of our teaching staff, and continuously investing in content development, teaching staff training and technological innovation to improve our operational efficiency. We have also selectively retained high-caliber instructors during the employee structure optimization process to improve our teacher utilization and maintain the quality of our courses. As such, we maintained healthy revenue scale and level of paid enrollments in 2021 and the six months ended June 30, 2022, despite the decrease of the number of our instructors and other teaching staff from approximately 10,000 members as of March 31, 2021 to approximately 5,300 members as of December 31, 2021 and further to approximately 4,100 members as of June 30, 2022. In particular, we have begun to generate gross profit from our classroom-based tutoring services since the fourth quarter of 2021. As a result, the gross margin for our classroom-based tutoring services narrowed significantly from (11.1)% in 2020 to (0.3)% in 2021. In the six months ended June 30, 2022, we recorded a gross profit margin for our classroom-based tutoring services of 36.3%, and the overall gross profit margin increased to 47.5%, as compared to 17.1% in the six months ended June 30, 2021. In addition, as we have substantially established our nationwide coverage with established local operational hubs in strategic localities, we will remain prudent with respect to geographical expansion. We will also closely monitor the development of the COVID-19 and related government measures in China to assess the impact on our business and adjust our strategies accordingly. See “Financial Information — Path to Profitability” for details.

Non-IFRS measure

We use adjusted net profit/loss as an additional financial measure, which is not required by, or presented in accordance with, IFRS. We believe that the non-IFRS measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management.

The following table reconciles our adjusted net profit/loss for the periods presented to the most directly comparable financial measure calculated and presented under IFRS.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB in thousands)			(Unaudited)	
Profit/(loss) for the year	154,070	(484,472)	(2,045,971)	(945,513)	(391,770)
<i>Add:</i>					
Share-based payments	21,171	121,637	415,379	172,303	83,188
Fair value losses of financial liabilities at fair value through profit or loss	—	—	582,957	19,698	383,799
Loss on settlement of financial liabilities at fair value through profit or loss	—	—	212,760	212,760	—
[REDACTED] expenses	—	—	12,518	—	20,415
Adjusted net profit/(loss)	175,241	(362,835)	(822,357)	(540,752)	95,632

We recorded adjusted net loss of RMB362.8 million and RMB822.4 million in 2020 and 2021, respectively, as compared to adjusted net profit of RMB175.2 million in 2019, primarily due to the substantial costs and operating expenses to support the launch of our classroom-based tutoring on a large-scale basis in May 2020. We recorded adjusted net profit of RMB95.6 million in the six months ended June 30, 2022, as compared to adjusted net loss of RMB540.8 million in the six months ended June 30, 2021, primarily because we optimized our employee structure and adjusted the scale of our offline coverage in an effort to improve our operational efficiency and profitability. See “Financial Information — Non-IFRS Measure” for details.

SUMMARY

Summary of Consolidated Statements of Balance Sheet

The following table sets forth a summary of our consolidated balance sheet as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
ASSETS				
Non-current assets				
Property, plant and equipment	19,068	133,574	231,105	164,346
Right-of-use assets	69,983	338,120	429,680	269,570
Intangible assets	770	691	882	827
Prepayments and other receivables	11,240	13,748	35,234	20,538
Deferred income tax assets	—	39,993	64,808	41,487
Total non-current assets	101,061	526,126	761,709	496,768
Current assets				
Inventories	52,636	73,849	87,197	88,732
Trade receivables	4,740	7,522	5,656	18,205
Contract assets	—	—	20,528	60,160
Prepayment and other receivables	45,493	77,147	97,127	75,885
Financial assets at fair value through profit or loss	280,181	351,639	10,139	—
Cash and cash equivalents	161,783	332,650	1,159,867	1,253,529
Total current assets	544,833	842,807	1,380,514	1,496,511
Total assets	645,894	1,368,933	2,142,223	1,993,279
EQUITY/(DEFICIT)				
Equity/(deficit) attributable to owners of the Company				
Share capital	—	42	47	47
Share premium	—	2,307,991	2,648,395	2,648,395
Other reserves	61,048	(8,516,304)	(8,465,224)	(8,776,812)
Retained earnings/(Accumulated losses)	116,583	(367,889)	(2,417,858)	(2,810,126)
Total equity/(deficit)	177,631	(6,576,160)	(8,234,640)	(8,938,496)
LIABILITIES				
Non-current liabilities				
Lease liabilities	40,577	178,563	267,904	172,296
Financial liabilities at fair value through profit or loss	—	6,390,956	8,756,164	9,614,491
Deferred income	—	—	—	1,000
Total non-current liabilities	40,577	6,569,519	9,024,068	9,787,787
Current liabilities				
Trade and other payables	76,453	312,528	313,360	167,808
Contract liabilities	109,314	156,103	169,194	157,618
Refund liabilities	196,103	757,752	680,293	685,002
Current income tax liabilities	19,333	20,439	22,164	26,782
Lease liabilities	26,456	128,752	167,784	106,778
Deferred tax liabilities	27	—	—	—
Total current liabilities	427,686	1,375,574	1,352,795	1,143,988
Total liabilities	468,263	7,945,093	10,376,863	10,931,775
Total equity/(deficit) and liabilities	645,894	1,368,933	2,142,223	1,993,279

SUMMARY

Summary of Consolidated Statement of Cash Flows

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

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB in thousands)			(Unaudited)	
Net cash generated from/(used in) operating activities	434,099	459,125	(915,129)	(286,527)	57,377
Net cash (used in)/generated from investing activities	(288,884)	(187,977)	156,516	(511,714)	25,440
Net cash (used in)/generated from financing activities	(90,726)	(100,281)	1,612,437	1,669,583	(49,895)
Net increase in cash and cash equivalents . .	54,489	170,867	853,824	871,342	32,922
Cash and cash equivalents at beginning of the year/period	109,041	161,783	332,650	332,650	1,159,867
Exchange difference	(1,747)	—	(26,607)	(6,235)	60,740
Cash and cash equivalents at end of the year/period	<u>161,783</u>	<u>332,650</u>	<u>1,159,867</u>	<u>1,197,757</u>	<u>1,253,529</u>

In 2021, our net cash used in operating activities was RMB915.1 million, primarily attributable to our loss before tax of RMB2,057.9 million, adjusted for (1) certain non-cash and non-operating items, primarily including fair value losses on financial liabilities at fair value through profit or loss of RMB583.0 million, share-based payments of RMB325.5 million, depreciation of right-of-use assets of RMB214.4 million, loss on settlement of financial liabilities at fair value through profit or loss of RMB212.8 million, and depreciation of property, plant and equipment of RMB78.0 million, and (2) changes in working capital that negatively affected the cash flow, primarily including payment for value previously recorded in equity relating to repurchase of employee share options of RMB113.0 million, a decrease in refund liabilities of RMB77.5 million, and an increase in trade receivables and prepayment and other receivables of RMB37.3 million. See “Financial Information — Liquidity and Capital Resources — Cash Flows” for details.

Key Financial Ratios

The following table sets forth our key financial ratios as of the dates and for the periods indicated.

	As of/for the year ended December 31,			As of/for the six months ended June 30,
	2019	2020	2021	2022
Profitability ratios				
Gross profit margin	46.2%	23.0%	24.5%	47.5%
Net profit/(loss) margin	13.3%	(22.7%)	(59.7%)	(27.0)%
Adjusted net profit/(loss) margin	15.1%	(17.0%)	(24.0%)	6.6%
Liquidity ratios				
Current ratio	1.3	0.6	1.0	1.3
Quick ratio	1.2	0.6	1.0	1.2

See “Financial Information — Key Financial Ratios” for details.

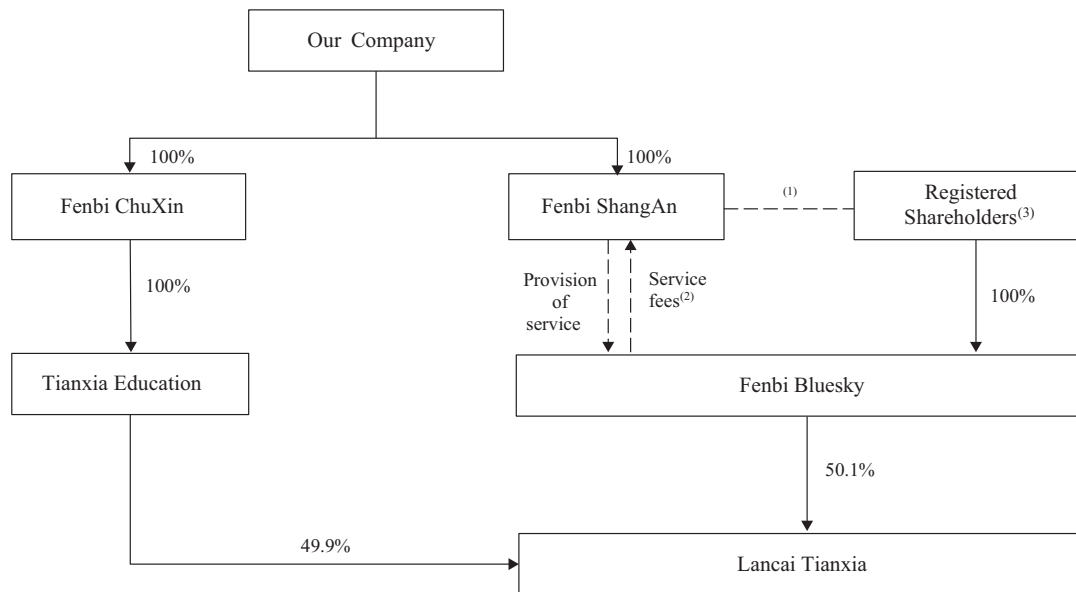
CONTRACTUAL ARRANGEMENTS

Our online non-formal VET services and book printing business in China are subject to foreign investment restrictions under PRC laws and are directly conducted through our Consolidated Affiliated Entities. In order to comply with PRC laws and regulations and maintain effective control over our

SUMMARY

Consolidated Affiliated Entities, we entered into the Contractual Arrangements through which, together with the equity holding, we are able to exercise control over and enjoy all the economic benefits derived from the operations of the Consolidated Affiliated Entities. See “Contractual Arrangements” for details.

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements.



—> denotes direct legal and beneficial ownership in the equity interest

- - -> denotes contractual relationship

- (1) Control of Fenbi ShangAn over Fenbi Bluesky through the following agreements with the Registered Shareholders: (i) Shareholder Voting Right Proxy Agreement, (ii) Exclusive Option Agreement, and (iii) Equity Pledge Agreement.
- (2) Control of Fenbi ShangAn over Fenbi Bluesky through the Business Cooperation and Service Agreement.
- (3) Fenbi Bluesky is owned as to 92.45%, 5.00%, 2.25%, 0.10%, 0.10% and 0.10% by Mr. Zhang, Beijing Fenbi Box, Mr. WEI Liang, Mr. LI Yong, Mr. LI Xin and Mr. GUO Changzhen, respectively. Beijing Fenbi Box is owned as to 95.0% by Mr. Zhang as the general partner and as to 5.0% by Mr. WEI Liang as the limited partner.

OUR SHAREHOLDING STRUCTURE

Our Controlling Shareholders

As of the Latest Practicable Date, the Concert Parties, namely Mr. Zhang, Mr. WEI Liang, Mr. LI Yong and Mr. LI Xin, acting in concert pursuant to the Concert Party Agreement, directly as well as through their respective controlled intermediary entities (i.e., the Intermediary Shareholders) held approximately 35.33% of the total issued share capital of our Company. Immediately after the completion of the [REDACTED] (assuming no exercise of the [REDACTED] and without taking into account any Shares to be issued pursuant to the [REDACTED] Share Option Scheme), the Concert Parties, through the Intermediary Shareholders, will hold approximately [REDACTED]% of the enlarged share capital of our Company. Accordingly, the Concert Parties, together with the Intermediary Shareholders, will continue to be our Controlling Shareholders upon the [REDACTED]. See “Relationship with Our Controlling Shareholders” and “History, Reorganization and Corporate Structure” for details.

SUMMARY

[REDACTED] Investments

We have completed [REDACTED] equity financings to fund our rapid business expansion. See “History, Reorganization and Corporate Structure — [REDACTED] Investments” for details of the identity and background of our [REDACTED] Investors.

Share Incentive Scheme

We value the contribution from our Directors, senior management and employees to the development and success of our Group. See “Appendix IV — Statutory and General Information — D. [REDACTED] Share Option Scheme” for details.

DIVIDEND

We are a holding company incorporated under the laws of the Cayman Islands. Any dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restriction and other factors which our Directors consider relevant. During the Track Record Period, we did not declare or pay any dividend. According to our dividend policy adopted on [•], the Articles of Association and applicable laws and regulations, our Company in general meeting may from time to time by ordinary resolution declare dividends in any currency to be paid to the Shareholders but no dividend shall be declared in excess of the amount recommended by the Board, provided always that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. We currently do not have a pre-determined or fixed dividend payout ratio. We will continue to re-evaluate our dividend policy in light of our financial condition and the prevailing economic environment. The determination to pay dividends will be made at the discretion of our Directors and will depend upon, among others, the financial results, business conditions and strategies, future operations and earnings, capital and investment requirements, level of indebtedness, and other factors that our Directors deem relevant.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material adverse effect on our business, results of operations or financial condition. In addition, during the Track Record Period and up to the Latest Practicable Date, we did not commit any material non-compliance of the laws and regulations, or experience any non-compliance incident, which taken as a whole, in the opinion of our Directors, is likely to have a material adverse effect on our business, results of operations or financial condition. As advised by our PRC Legal Advisors, during the Track Record Period and up to the Latest Practicable Date, save as disclosed in this document, we had complied with the relevant PRC laws and regulations currently in effect in all material respects. See “Business — Legal Proceedings and Compliance” for details.

COVID-19 OUTBREAK AND EFFECTS ON OUR BUSINESS

A novel strain of coronavirus, known as COVID-19, has severely affected China and many other countries in recent years. On March 11, 2020, amid the escalating situation, the World Health Organization further characterized COVID-19 as a pandemic. With measures taken by the PRC government, there has been a significant decrease in the number of existing confirmed COVID-19 cases in China since mid-February 2020. The Chinese government has gradually lifted domestic travel restrictions and other quarantine measures, and economic activities have begun to recover and return to normal nationwide since the second quarter of 2020 despite the recurrence of confirmed cases in various regions in China. Our Directors have carried out a holistic review of the impact of the COVID-19 on our operations and confirmed that as of the Latest Practicable Date, COVID-19 had not had any long-term material adverse impact on our operations based on the following grounds.

SUMMARY

Impact on our business and financial conditions. Government efforts to contain the spread of the COVID-19 pandemic, including city lockdowns, “stay-at-home” orders, travel restrictions and emergency quarantines, have caused significant and unprecedented disruptions to the global and Chinese economy and normal business operations across various sectors, including our addressable markets. For example, during the Track Record Period and up to the Latest Practicable Date, over 60 major national or provincial recruitment and qualification examinations in China were postponed, such as the 2020 Public Institution Employee Recruitment Examination of Guangdong Province and the 2021 National Civil Servants Examination, which required us to postpone relevant course delivery correspondingly, leading to delayed revenue recognition. In particular, several recruitment and qualification examinations originally scheduled in the first half of 2022 had been postponed for months. For example, the 2022 Multi-provincial Unified Civil Servants Examination, which involves more than 20 provinces, was delayed from March 2022 to July 2022. In addition, a few other examinations have not been held as of the date of this document as a result of the regional resurgence of COVID-19 cases in early 2022 in China, such as certain municipal level teacher recruitment examinations. On the other hand, several other examinations were held earlier than scheduled, such as certain Regional Civil Servants Examinations in 2021, which resulted in shortened service periods and lowered course fees we charged and, therefore, decreased revenue.

Despite the short-term impact, we expect that our business will not be severely disrupted in the long run for the following reasons. The COVID-19 pandemic has been generally contained in China where we conduct our business, and we were generally able to develop our offline operations. Specifically, the total paid enrollments of our classroom-based tutoring courses continued to increase from 710,000 in 2020 to 836,000 in 2021, and the paid enrollments of our classroom-based formal courses continued to increase from 293,000 in 2020 to 398,000 in 2021, despite the impact of the COVID-19 pandemic. Although our classroom-based tutoring services were negatively affected by the regional resurgence of the COVID-19 pandemic in the first half of 2022, which led to the postponement of certain examinations, there has been a recovery of recruitment needs, according to the F&S Report. For example, the 2022 Multi-provincial Unified Civil Servants Examination was held in July 2022 without downsizing the hiring plans. Moreover, we can serve users with comprehensive online products and services remotely, which we believe has, to a certain extent, minimized the impact of the restrictions on offline activities caused by the outbreak. Furthermore, the COVID-19 outbreak has not materially and adversely affected the recruitment plans of various government-sponsored positions, as evidenced by an increasing number of government-sponsored positions offered since 2020, according to the F&S Report. China’s non-formal VET industry, in terms of revenue, is expected to increase from RMB221.5 billion in 2021 to RMB331.7 billion in 2026 at a CAGR of 8.4%, according to the same source. As such, we believe that there is sustained demand for our tutoring services despite the COVID-19 outbreak.

Impact on our operations. As mandated shutdowns went into effect across China in early 2020 when the COVID-19 outbreak peaked in China, we experienced nationwide suspension of our classroom-based tutoring courses from January 2020 to May 2020. After that, we from time to time experienced regional suspension of our classroom-based tutoring courses in over 100 cities across 29 provinces, municipalities, and autonomous regions due to the local resurgence of the pandemic, which typically lasted from several days to two to three months, depending on the severity of the outbreak and local governmental policies. As a result, the paid enrollments of our classroom-based tutoring courses grew slower than expected. For example, we temporarily suspended our classroom-based tutoring courses in Jilin Province from March 2022 to May 2022 due to the recent regional resurgence of COVID-19 cases and provided online tutoring courses to the concerned students as a substitute. Our business operations have not been materially and adversely affected by the recent resurgence of the pandemic in Shanghai City as we have little offline tutoring service in operation there.

SUMMARY

The following table sets forth the number of cities where we suspended our classroom-based tutoring services by duration in 2021 and 2022, respectively.

	2021	2022 ⁽¹⁾
Number of cities where we suspended classroom-based tutoring		
Within 30 days	30	2
30 to 60 days	55	15
61 to 90 days	5	45
Over 90 days	—	4
Total	90	66

(1) Since 2022 and up to the Latest Practicable Date.

We may continue to experience temporary closedown of individual local operational hubs and classrooms considering the uncertainties surrounding the current state and the future development of the COVID-19 outbreak.

Impact on our employees. We have adopted a flexible work arrangement, allowing our employees to work from home in specific localities as needed, such as Jilin Province and Shanghai City during the recent regional resurgence period, which may lead to changes to or suspension of certain employees’ daily work. However, we believe that such arrangement would not materially disrupt our business.

Impact on our supply chain. As of the Latest Practicable Date, we had not experienced any major supply disruption.

See “Financial Information — COVID-19 Outbreak and Effects on Our Business” for details of the impact of COVID-19 and our corresponding precautionary measures and social responsibility.

However, we cannot be entirely certain as to when the COVID-19 pandemic will be fully contained, and its impact will be completely alleviated. There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the severe global situation and occasional regional resurgence of COVID-19 cases in certain areas in China. We are closely monitoring the development of the COVID-19 pandemic and continuously evaluating any potential impact on our business, results of operations and financial condition. See “Risk Factors — Risks Relating to Our Business and Industry — Our business and operations have been, and may continue to be, adversely affected by the COVID-19 pandemic.”

NO-MATERIAL ADVERSE CHANGE

Our Directors confirmed that, up to the date of this document, there had been no material adverse change in our financial, operating or trading conditions since June 30, 2022, being the end of the period reported in the Accountant’s Report in Appendix I to this document.

APPLICATION FOR [REDACTED] ON THE STOCK EXCHANGE

We are applying for [REDACTED] under Rule 8.05(3) of the Listing Rules and satisfy the market capitalization/revenue test, among other things, with reference to (1) our revenue for the year ended December 31, 2021, being RMB3,428.6 million, which is significantly over HK\$500 million as required by Rule 8.05(3) of the Listing Rules; and (2) our expected market capitalization at the time of the [REDACTED], which, based on the low end of the [REDACTED] range, exceeds HK\$4 billion as required by Rule 8.05(3) of the Listing Rules.

SUMMARY

STATISTICS OF THE [REDACTED]

All statistics in the following table are based on the assumptions that (1) the [REDACTED] has been completed and [REDACTED] Shares are issued pursuant to the [REDACTED]; (2) options granted under the [REDACTED] and the [REDACTED] Share Option Scheme are not exercised; and (3) [REDACTED] Shares are issued and outstanding following the completion of the [REDACTED].

	Based on an [REDACTED] of HK\$[REDACTED] per Share	Based on an [REDACTED] of HK\$[REDACTED] per Share
Market capitalization of our Share	HK\$[REDACTED] million	HK\$[REDACTED] million
Unaudited [REDACTED] adjusted consolidated net tangible asset value per Share ⁽¹⁾	HK\$[REDACTED]	HK\$[REDACTED]

(1) The unaudited [REDACTED] adjusted consolidated net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II to this document.

[REDACTED] EXPENSES

We expect to incur a total of approximately RMB[REDACTED] million of [REDACTED] expenses in connection with the [REDACTED], representing approximately [REDACTED]% of the [REDACTED] from the [REDACTED] (assuming an [REDACTED] of HK\$[REDACTED], being the mid-point of the [REDACTED] range between HK\$[REDACTED] and HK\$[REDACTED], and assuming that the [REDACTED] is not exercised). During the Track Record Period, we incurred [REDACTED] expenses of approximately RMB[REDACTED] million, out of which approximately RMB[REDACTED] million was charged to our consolidated statements of profit or loss as administrative expenses, while the remaining amount of approximately RMB[REDACTED] million was capitalized as prepayment and will be deducted from the share premium upon the completion of the [REDACTED]. We expect to further incur [REDACTED] expenses of approximately RMB[REDACTED] million upon the completion of the [REDACTED], out of which approximately RMB[REDACTED] million is expected to be charged to our consolidated statements of profit or loss and approximately RMB[REDACTED] million is expected to be deducted from the share premium. The [REDACTED] expenses above are the best estimate as of the Latest Practicable Date and are for reference only. The actual amount may differ from this estimate.

USE OF [REDACTED]

We estimate that the [REDACTED] from the [REDACTED] will be approximately HK\$[REDACTED] (after deducting the estimated [REDACTED] and other fees and expenses in connection with the [REDACTED]), assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative range of the [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per Share, and the non-exercise of the [REDACTED].

We currently intend to apply the [REDACTED] from the [REDACTED] for the purposes and in the amounts set out follows:

- approximately [REDACTED]% of the [REDACTED], or HK\$[REDACTED] million, to enrich our course offerings and expand our student base;
- approximately [REDACTED]% of the [REDACTED], or HK\$[REDACTED] million, to enhance our content and technological development capabilities;
- approximately [REDACTED]% of the [REDACTED], or HK\$[REDACTED] million, to conduct marketing campaigns primarily for our newly developed courses; and
- approximately [REDACTED]% of the [REDACTED], or approximately HK\$[REDACTED] million, for working capital and other general corporate purposes.

See “Future Plans and Use of [REDACTED] — Use of [REDACTED]” for details.