You should read the following discussion in conjunction with the consolidated financial statements and the notes thereto as set forth in the Accountant's Report in Appendix I to this document. You should read the entire Accountant's Report in Appendix I to this document and not rely merely on the information contained in this section. The Accountant's Report has been prepared in accordance with the International Financial Reporting Standards (the "IFRS"), which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in "Forward-looking Statements" and "Risk Factors." In evaluating our business, you should carefully consider the information provided in "Risk Factors" in this document.

OVERVIEW

We are a non-formal VET service provider in China, dedicated to making high-quality non-formal VET services accessible through technology and innovation. As a leading career test preparation service provider in China, we primarily provide recruitment and qualification examination tutoring courses for adult students pursuing careers in government-sponsored institutions and a number of professions and industries. 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 offer a wide range of test preparation courses addressing various educational needs of adult students in China, primarily including civil servants examination tutoring courses, public institution employees examination tutoring courses, teacher qualification and recruitment tutoring courses, and other test preparation courses. We deliver our tutoring services through omni-channels. In the online tutoring setting, our instructors deliver courses in live or pre-recorded format and interact with students on Fenbi online platform. In the offline tutoring setting, our instructors deliver courses by way of classroom teaching. In addition, students taking either online or offline tutoring courses may supplement their learning with our feature-rich online learning products and toolkits. 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 (non-IFRS measure) of RMB175.2 million in 2019, adjusted net loss (non-IFRS measure) of RMB362.8 million and RMB822.4 million in 2020 and 2021, respectively, and adjusted net profit (non-IFRS measure) of RMB95.6 million in the six months ended June 30, 2022. See "— Non-IFRS Measure" for a reconciliation of our profit/loss for the year/period to adjusted net profit/loss (non-IFRS measure).

BASIS OF PREPARATION

Our historical financial information has been prepared in accordance with IFRS issued by the International Accounting Standards Board. The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss.

The preparation of historical financial information in conformity with IFRS requires the use of certain critical accounting estimates, as well as our management's judgment in applying our accounting policies. See Note 4 to the Accountant's Report in Appendix I to this document for the areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information.

All effective standards, amendments to standards and interpretations which are mandatory for the financial year beginning January 1, 2019, including IFRS 16 Leases, are consistently applied to our Group throughout the Track Record Period.

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition have been, and are expected to continue to be, affected by various general factors, including primarily the following.

Demand for Career Test Preparation Services in China

Our business has benefited from the increasing demand for career test preparation services in China, which has been, and will continue to be, driven by a number of factors, including favorable government policies, technological innovation, service upgrade, intensified competition in the relevant job market, and trend toward OMO integration. According to the F&S Report, the penetration rate of career test preparation services in China is expected to increase from 25.6% in 2021 to 28.9% in 2026. See "Industry Overview" for details. Changes in these factors, especially changes in the recruitment plans and procedures of government-sponsored positions and the PRC laws and regulations regarding career test preparation, would have a significant effect on the demand for our tutoring services, and in turn, our business and prospects. Our ability to anticipate and respond to evolving industry trends and market demands will have a significant impact on our future performance.

Seasonality

The timing at which students purchase our tutoring courses and learning products is subject to seasonal fluctuations in relation to the examination cycle. For example, the written tests of the National Civil Servants Examination are normally held in November or December of a year, and the corresponding interview tests are normally held in February or March of the following year. As for the Regional Civil Servants Examination, the written tests and the interview tests (following the announcement of the written test results) are normally held in the first half of a year. The timing at which students submit refund requests is also subject to the release schedule of the examination results, and typically follows the release of the results. The movement of our refund liabilities and liquidity position may, accordingly, be subject to seasonal fluctuations. As a result, our operating and financial metrics for an interim period may not be representative of our overall performance. Changes in seasonal trends may cause fluctuations in our results of operations and financial condition.

SPECIFIC FACTORS AFFECTING OUR RESULTS OF OPERATIONS

In addition to general economic and industry factors, we believe the following company-specific factors have had, and will continue to have, a significant impact on our results of operations and financial condition.

Level of Paid Enrollments and Course Fees

Our results of operations depend substantially on the paid enrollments of our tutoring courses and products. 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. In particular, 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. The level of our paid enrollments depends on a number of factors, including primarily the perceived quality and effectiveness of our services. We believe that our in-house developed, well-designed curricula and learning materials and high-caliber teaching staff are critical in attracting students and driving word-of-mouth referrals. We will continue to leverage our online learning toolkits and products and promotional courses to expand our user base in a cost-effective manner. However, an increase in the promotional course offerings to generate user traffic and grow user base may not result in an immediate and proportional growth in our revenue in the same period, due to the low level of course fees we charge for such courses as a marketing strategy. We may from time to time adjust our marketing strategies to compete more effectively. Furthermore, we believe that our paid enrollments will be driven by our ability to expand our course offerings and capture cross-selling and up-selling opportunities among our broad student base. For example, we have expanded, and will continue to develop, our course offerings beyond the non-formal VET market. By doing so, we aim to establish a comprehensive learning platform along the entire career development path of our students.

Our results of operations are also affected by the level of course fees that we can charge our students. We generally determine the course fees based on various factors, including subject matter, examination cycle, level of sophistication of the course, course coverage, add-on services and competition. See "Business — Our Tutoring Services — Course Fees and Refund Policies" for details. For example, for our online tutoring services, our course fee levels differ between systematic tutoring courses and premium tutoring courses, and the course fees of classroom-based tutoring courses are relatively higher than that of our online tutoring courses. During the Track Record Period, the launch of our classroom-based tutoring courses on a large-scale basis and our online premium courses contributed to raising the upper range of our course fees. The gross billings from our online tutoring courses and learning products were RMB1,075.9 million, RMB1,358.3 million, RMB2,140.4 million, RMB1,138.9 million and RMB1,132.9 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, and the paid enrollments were approximately 5.9 million, 8.9 million, 8.9 million, 4.9 million and 3.9 million in the same periods, respectively. The gross billings from our classroom-based tutoring courses were RMB576.6 million, RMB2,790.0 million, RMB4,404.0 million, RMB3,228.0 million and RMB954.1 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, and the paid enrollments were approximately 71,000, 710,000, 836,000, 597,000 and 206,000 in the same periods, respectively. We were generally able to sustain the course fee level of each type of course and for each examination subject during the Track Record Period. As we continue to reinforce our market leadership and enhance the coverage and quality of our course offerings, we may adjust our pricing strategy from time to time accordingly. Any future changes in the offering of courses at different fee levels would affect our overall results of operations and financial condition.

Change in Service Offering Mix

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 service offering mix affects our results of operations, especially our overall profit margin. For example, our classroom-based tutoring services has made significant contribution to our overall revenue growth since the launch on a large-scale basis in May 2020. Revenue generated from online tutoring services accounted for 56.7%, 46.2%, 40.7%, 36.0% and 49.4% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively; and revenue generated from classroom-based tutoring services accounted for 30.5%, 41.6%, 47.2%, 53.3% and 36.1% of our total revenue in the same periods, respectively. The profit margins vary across our different business lines.

During the Track Record Period, the gross profit margin of our online tutoring services was higher than that of our classroom-based tutoring services as we incurred substantial costs and expenses to support our launch of classroom-based tutoring on a large-scale basis, which affected our overall gross profit margin. Any future change in our online or offline service offering mix or change in profit margin of any business line may have a corresponding impact on our overall gross profit margin.

In addition, our formal courses can be classified as non-contractual classes and contractual classes from revenue recognition perspective. The course fees for contractual classes are partially or fully refundable if the students complete the classes but fail to pass the examination as specified in our agreement. As a result, although the course fees for contractual classes are generally higher than that for the non-contractual classes of the same course, an increase in our gross billings contributed from the enrollment in contractual classes may not necessarily result in an immediate and proportional growth in our revenue during the same period. After the examination results are released, we will have to refund the course fees upon the completion of review of valid refund requests from our students. As the actual refund requests may differ from our initial estimation, we may have to reverse revenue previously recognized or recognize additional revenue. We may also experience fluctuation in our liquidity position due to these refund requests in a certain period. As a result, changes in the proportion of our contractual classes may affect our financial position due to the relevant accounting treatment.

Ability to Control Cost and Expenses

Our ability to effectively control our cost and expenses while achieving expected business growth is critical to our profitability. A significant component of our cost of sales and operating expenses is employee benefit expenses, which increased significantly during the Track Record Period in connection with 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 changes in the headcount. The following table sets forth a breakdown of our full-time employees by function as of the dates indicated.

	As of December 31,			As of June 30,
Function	**2019**	**2020**	**2021**	**2022**
Instructors and other teaching staff	755	7,671	5,302	4,075
Sales and marketing	474	3,713	2,475	2,409
General administration and operations	100	926	635	359
Content and technological development[(1)]	212	354	344	349
Production of textbooks and learning materials	51	139	208	196
Total	1,592	12,803	8,964	7,388

(1) In addition to our content development personnel, certain of our teaching staff participate in our content development activities from time to time, leveraging their frontline teaching experience.

The following table sets forth the average, and the range of, monthly salary of our full-time employees by function for the periods indicated.

	Year ended December 31,						Six months ended June 30,	
	2019		2020		2021		2022	
Function	Average	Range	Average	Range	Average	Range	Average	Range
				(RMB)				
Instructors and other teaching staff	13,300	6,500–41,900	9,500	5,800–42,200	8,900	3,500–48,900	8,900	3,100–139,300
Sales and marketing	12,300	6,300–45,900	7,600	4,800–32,900	6,400	3,200–45,900	6,800	2,100–33,900
General administration and operations	24,600	2,200–68,300	13,600	2,200–68,400	9,300	2,100–64,900	11,900	1,700–76,800
Content and technological development[(1)]	23,300	9,700–58,100	20,900	8,000–62,700	18,300	5,900–67,000	18,600	4,500–77,400
Production of textbooks and learning materials	15,700	9,100–24,000	12,600	2,200–20,900	9,100	4,000–21,700	8,900	4,000–22,000

(1) In addition to our content development personnel, certain of our teaching staff participate in our content development activities from time to time, leveraging their frontline teaching experience.

Employee benefit expenses recorded as cost of sales were incurred for our teaching team, and to a lesser extent, our employees involved in the production of our textbooks and learning materials. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our employee benefit expenses recorded as cost of sales were RMB123.8 million, RMB670.1 million, RMB1,439.9 million, RMB792.1 million and RMB382.2 million, respectively, representing 10.7%, 31.4%, 42.0%, 42.0% and 26.3% of our total revenue of the same periods, respectively. Particularly, the number of our instructors and other teaching staff increased significantly from approximately 800 as of December 31, 2019 to approximately 7,700 as of December 31, 2020 and further to approximately 10,000 as of March 31, 2021 in support of our business growth and offline expansion. While we incurred recruitment and training costs to recruit new instructors and other teaching staff in preparation for our offline expansion, we only began to generate revenue gradually after we launched and delivered classroom-based tutoring courses. As a result, our overall profitability was adversely affected in the short run. To effectively manage our growth and improve our profitability, we optimized the structure of our teaching team to comprise approximately 5,300 members as of December 31, 2021 and further to approximately 4,100 members as of June 30, 2022, as compared to approximately 10,000 as of March 31, 2021. Our instructors and other teaching staff as of June 30, 2022 have been with us for an average of approximately 1.8 years as of the same date. The following table sets forth the changes in the number of our instructors and other teaching staff during the Track Record Period.

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
As of the beginning of the period	341	755	7,671	5,302
Recruitments	636	8,930	5,708	141
Departures	(222)	(2,014)	(8,077)	(1,368)
Net increase/(decrease)	414	6,916	(2,369)	(1,227)
As of the end of the period	755	7,671	5,302	4,075

Going forward, we plan to improve the utilization of our teaching staff by increasing the number of students each teaching staff serves and the number of their teaching hours without compromising the teaching quality and the learning experience for our students.

In addition, since the launch of our classroom-based tutoring on a large-scale basis in May 2020, we had established an extensive offline network covering over 220 cities across 31 provinces, autonomous regions and municipalities in China as of June 30, 2022. Expanding into new geographical markets poses challenges and uncertainties and requires us to invest managerial, financial, marketing and other resources. We typically establish subsidiaries and branch offices in select cities of a region, which operate as local operational hubs for such region. Leveraging these operational hubs, we gradually attract students to attend classroom-based courses from adjacent cities of the same region. In addition to the employee benefit expenses incurred under cost of sales for local teaching staff, we generally incur additional operating expenses for each newly established operational hub, such as rental, renovation expenses, property management fees, depreciation and amortization, promotion expenses and other miscellaneous fees, as well as employee benefit expenses for our local supportive staff, such as administrative and sales and marketing staff. We believe such investments were indispensable to the expansion of our geographical coverage in order to capture significant offline monetization opportunities and achieve long-term profitable growth. However, it takes time for a newly established local operational hub to attract students from the target area and generate revenue. As we have successfully built our nationwide coverage and established our offline operation team, we will focus on increasing the paid enrollments of our classroom-based courses in a cost-effective and asset-light manner. Going forward, we plan to mainly leverage the existing local operational hubs to promote our offline courses and direct more prospective students from the surrounding areas to attend our courses. We also expect to improve our operational efficiency with accumulated operational experience. As such, we expect to manage our cost and expenses more effectively.

Our Technology and Infrastructure

We are a market leader in China's career test preparation industry with proprietary technology infrastructure. Historically, we made significant investment in our R&D activities as we continued to improve our technology infrastructure and expand and upgrade our portfolio of online learning toolkits and products. We believe that our continued investments in technological development have enabled us to provide effective learning experience to our students and improve our own operational efficiency. Our future success depends on the development and application of advanced technologies to continuously enhance the learning experience for our students and achieve greater OMO synergy. To that end, we intend to devote more resources to our technological development. See "Business — Growth Strategies — Strengthen our technologies and data analytics capability." We also intend to continue to maintain, upgrade and expand our technological infrastructure to better serve our growing student base. These initiatives may increase our research and development expenses and impact our results of operations. We expect that our strategic focus on technological capability will continue to create entry barriers and enhance our market leadership, which in turn will enable us to achieve sustainable business growth.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies and estimates that we believe are most significant to the preparation of our consolidated financial statements. Our significant accounting policies and estimates, which are important for understanding our results of operations and financial condition, are set forth in Note 2 and Note 4 to the Accountant's Report in Appendix I to this document. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider our selection of critical accounting policies, the judgment and other uncertainties affecting the application of such policies, and the sensitivity of reported results to changes in conditions and assumptions.

Revenue Recognition

Revenue is recognized when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if:

- the customer simultaneously receives and consumes the benefits provided by our performance as we perform;

- our performance creates and enhances an asset that the customer controls as we perform; or

- our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services.

As for sales of books, we conduct consignment sales under consignment arrangements with certain distributor that undertakes to sell the books to their end-customers on behalf of our Group. We recognize revenue when the control of the goods is transferred to the end-customers.

Contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimates have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgments on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, we present the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between our performance and the customer's payment. A contract asset is our right to consideration in exchange for goods and services that we have transferred to a customer. A receivable is recorded when we have an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. If a customer pays consideration or we have a right to an amount of consideration that is unconditional, before we transfer a good or service to the customer, we present the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer.

We recognize a refund liability if we receive consideration from a customer and expect to refund some or all of that consideration to the customer. A refund liability is measured at the amount of consideration received (or receivable) which we do not expect to be entitled to (i.e., amounts not included in the transaction price). The refund liability (and corresponding change in the transaction price and, therefore, the contract liability) will be updated at the end of each reporting period for changes in circumstances.

During the Track Record Period, we mainly generated revenues from providing tutoring services and selling books.

Provision of tutoring services

The course that we provide to customers can be classified as non-contractual classes and contractual classes based on different refund policies.

Course fees are generally received in advance prior to the beginning of certain courses. We recognize as revenue at the minimum amount of variable consideration in the transaction price if there is the amount that is not constrained (the "minimum amount"). The minimum amount is recognized proportionately over the relevant period in which the services are rendered.

As for constraint on the amount of variable consideration, we will recognize some or all of the amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Sales of books

Revenue from sales of books is recognized when or as the control of the products is transferred to a customer. Control of the products is transferred to customers when an agreement has been signed with a customer and the required documents have been delivered.

Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date when the leased asset is available for our use.

Lease agreements may contain both lease and non-lease components. We allocate the consideration in the agreements to lease and non-lease components based on their relative standalone prices. However, for lease agreements of real estate under which we are a lessee, we have elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease agreement are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by us under residual value guarantees;
- the exercise price of a purchase option if we are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects we exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease agreement. If such rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost, taking into consideration the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If we are reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. There were no low-value assets during the Track Record Period.

Investment and Other Financial Assets

Classification

We classify our financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and

- those to be measured at amortized cost.

The classification depends on our business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, the classification will depend on whether we have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

We reclassify debt investments when and only when our business model for managing those assets changes.

Recognition and derecognition

Regular-way purchases and sales of financial assets are recognized on trade date, the date on which we commit to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on our business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which we classify its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in other comprehensive income will be reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the statement of profit or loss.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

We subsequently measure all equity investments at fair value. Where our management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when our right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

Impairment

We assess on a forward-looking basis the expected credit loss associated with our debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, we apply the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. See Note 17 to the Accountant's Report in Appendix I to this document for further details.

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

To supplement our consolidated financial statements which are presented in accordance with IFRS, we use adjusted net profit/loss (non-IFRS measure) as an additional financial measure, which is not required by, or presented in accordance with, IFRS. We believe that the non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. However, our presentation of the non-IFRS measure may not be comparable to similarly titled measures presented by other companies. The use of the non-IFRS measure has limitations as analytical tools, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS.

We define adjusted net profit/loss (non-IFRS measure) as profit/loss for the year/period adjusted by share-based payments, fair value losses on financial liabilities at fair value through profit or loss, loss on settlement of financial liabilities at fair value through profit or loss, and **[REDACTED]** expenses. Share-based payments arise from granting options to employees. We exclude share-based payments as such expenses are non-cash in nature and do not result in cash outflows. Fair value losses on financial liabilities at fair value through profit or loss represent fair value changes relating to convertible preferred shares issued in our equity financings. The convertible preferred shares will be automatically converted into ordinary shares upon completion of the **[REDACTED]**, and we do not expect to record further gains or losses in relation to valuation changes in such instruments after the **[REDACTED]**. Loss on settlement of financial liabilities at fair value through profit or loss is related to the redemption of certain number of preferred shares, which have been cancelled at the closing of the redemption in March 2021, and we do not expect to record any further gains or losses in relation to the settlement of such instruments thereafter. **[REDACTED]** expenses were incurred in connection with our preparation for the **[REDACTED]**.

The following table reconciles our adjusted net profit/loss (non-IFRS measure) 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/period	154,070	(484,472)	(2,045,971)	(945,513)	(391,770)
Add:					
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) (non-IFRS measure)	**175,241**	**(362,835)**	**(822,357)**	**(540,752)**	**95,632**

KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

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 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**

We generated revenue of RMB1,011.9 million, RMB1,872.7 million, RMB3,013.5 million, RMB1,684.3 million and RMB1,240.4 million from tutoring services in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, representing 87.2%, 87.8%, 87.9%, 89.3% and 85.5% of our total revenue in the same periods, respectively. The increase in our revenue generated from tutoring services from 2019 to 2021 was primarily driven by (1) the increase in our paid enrollments, in particular our paid enrollments of formal courses, as a result of the launch of our classroom-based tutoring on a large-scale basis in May 2020 and the continued growth of our online tutoring services, and (2) the increase in the average gross billings per paid enrollment driven by a higher proportion in the offering of our classroom-based tutoring courses and online premium courses, the course fees of which are relatively higher than our online systematic tutoring courses. 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. In particular, 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.

The decrease in our revenue generated from our tutoring services from the six months ended June 30, 2021 to the six months ended June 30, 2022 was primarily caused by the decrease in our paid enrollments, in particular our paid enrollments of classroom-based formal courses as a result of (1) the suspension of our classroom-based tutoring services in certain localities and the postponement of certain examinations amid the regional resurgence of the COVID-19 pandemic in the first half of 2022, and (2) the strategic adjustment of the scale of our offline coverage to effectively manage our growth and improve our profitability, which reduced the number of our operational hubs from 363 as of December 31, 2021 to 276 as of June 30, 2022. The total paid enrollments of our tutoring courses and online products decreased from 5.5 million in the six months ended June 30, 2021 to 4.1 million in the six months ended June 30, 2022, and the paid enrollments of our formal courses decreased from 1.4 million to 1.2 million during the same period. In particular, the paid enrollments of our classroom-based formal courses decreased from 287,000 in the six months ended June 30, 2021 to 110,000 in the six months ended June 30, 2022.

Specifically, revenue generated from online tutoring services accounted for 56.7%, 46.2%, 40.7%, 36.0% and 49.4% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, and revenue generated from classroom-based tutoring services accounted for 30.5%, 41.6%, 47.2%, 53.3% and 36.1% of our total revenue in the same periods, respectively. Revenue generated from classroom-based tutoring services as a percentage of our total revenue continuously increased from 2019 to 2021, primarily due to our offline expansion efforts since May 2020, with average gross billings per paid enrollment relatively higher than our online courses. Such percentage decreased from the six months ended June 30, 2021 to the six months ended June 30, 2022, primarily due to the decrease in the paid enrollments of our classroom-based formal courses for the reasons discussed above.

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	68.4	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**

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**

Revenue generated from sales of books was related to (1) standalone sales activities in relation to our textbooks and learning materials through e-commerce platforms or to third-party book sellers and (2) sales that accompany our tutoring services. We generated revenue of RMB148.4 million, RMB259.3 million, RMB415.1 million, RMB201.1 million and RMB210.7 million from sales of books in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, representing 12.8%, 12.2%, 12.1%, 10.7% and 14.5% of our total revenue in the same periods, respectively. The increase in our revenue generated from sales of books during the Track Record Period was primarily due to the increased sales volume as a result of our business growth and enhanced brand recognition.

Cost of Sales

In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our cost of sales was RMB624.1 million, RMB1,642.1 million, RMB2,587.7 million, RMB1,562.9 million and RMB761.7 million, respectively, representing 53.8%, 77.0%, 75.5%, 82.9% and 52.5%, respectively, of our total revenue for the same periods. The increase in our cost of sales during the Track Record Period was primarily driven by our business growth and offline expansion.

The following table sets forth a breakdown of our cost of sales 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	261,139	41.8	494,250	30.1	680,476	26.3	394,872	25.3	284,840	37.4
Classroom-based tutoring	264,302	42.4	985,084	60.0	1,622,240	62.7	1,024,108	65.5	333,318	43.8
Subtotal	**525,441**	**84.2**	**1,479,334**	**90.1**	**2,302,716**	**89.0**	**1,418,980**	**90.8**	**618,158**	**81.2**
Sales of books	**98,632**	**15.8**	**162,808**	**9.9**	**284,976**	**11.0**	**143,894**	**9.2**	**143,563**	**18.8**
Total	**624,073**	**100.0**	**1,642,142**	**100.0**	**2,587,692**	**100.0**	**1,562,874**	**100.0**	**761,721**	**100.0**

Our cost of sales primarily consisted of employee benefit expenses, cost of course materials, lease expenses, human resource outsourcing and other labor costs and logistic expenses. The following table sets forth a breakdown of our cost of sales by nature 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)			
Employee benefit expenses	123,798	19.8	670,139	40.8	1,439,906	55.7	792,146	50.7	382,168	50.2
Cost of course materials	205,214	32.9	330,501	20.1	377,663	14.6	256,431	16.4	131,234	17.2
Lease expenses	70,917	11.4	259,728	15.8	326,760	12.6	232,591	14.9	76,668	10.1
Human resource outsourcing and other labor costs	112,534	18.0	159,884	9.8	91,421	3.5	64,784	4.1	45,633	6.0
Logistic expenses	43,101	6.9	61,184	3.7	77,512	3.0	44,947	2.9	42,515	5.5
Others(1)	68,509	11.0	160,706	9.8	274,430	10.6	171,975	11.0	83,503	11.0
Total	**624,073**	**100.0**	**1,642,142**	**100.0**	**2,587,692**	**100.0**	**1,562,874**	**100.0**	**761,721**	**100.0**

(1) Include primarily operating consumables, meal expenses provided to students, office expenses, travel expenses, services fees for cloud storage directly relating to our provision of tutoring services, depreciation of property, plant and equipment, depreciation of right-of-use assets, and tax and surcharge.

Employee benefit expenses primarily consisted of wages, salaries, bonuses, pension and other social security costs, and other employee welfares paid to our teaching staff, and to a lesser extent, our employees involved in the production of our textbooks and learning materials. Cost of course materials primarily consisted of costs of paper and other materials, as well as typesetting, printing and publishing costs in connection with our sales of books, and for other materials used in our tutoring courses. Lease expenses primarily consisted of costs paid to hotels for classroom premises and for accommodation for certain courses with boarding services. Human resource outsourcing and other labor costs primarily consisted of commissions paid to contract workers involved in the course delivery process, who we engaged to accommodate more students during peak examination preparation seasons from the examination cycle. See "Business — Employees." Logistic expenses primarily consisted of costs incurred for the delivery of our textbooks and learning materials to students purchasing our tutoring courses, individual consumers purchasing our textbooks and learning materials through e-commerce platforms, and third-party book sellers.

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**

Administrative Expenses

Our administrative expenses primarily consisted of employee benefit expenses, depreciation of right-of-use assets, human resource outsourcing and other labor costs, lease expenses, depreciation of property, plant and equipment, charges for licensed payment institutions, office expenses and **[REDACTED]** expenses. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our administrative expenses were RMB142.4 million, RMB484.3 million, RMB1,119.9 million, RMB579.7 million and RMB264.9 million, respectively, representing 12.3%, 22.7%, 32.7%, 30.7% and 18.3% of our total revenue for the same periods, respectively.

The following table sets forth a breakdown of our administrative expenses by nature 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)			
Employee benefit expenses	57,062	40.1	179,611	37.1	547,687	48.9	274,861	47.4	117,686	44.4
Depreciation of right-of-use assets	21,565	15.1	68,280	14.1	181,436	16.2	83,219	14.4	54,188	20.5
Human resource outsourcing and other labor costs	26,011	18.3	89,543	18.5	69,503	6.2	41,581	7.2	13,725	5.2
Lease expenses	9,752	6.8	12,886	2.6	45,936	4.1	23,976	4.1	5,808	2.2
Depreciation of property, plant and equipment	2,729	1.9	12,129	2.5	45,542	4.1	28,412	4.9	16,813	6.3
Charges for licensed payment institutions	8,068	5.7	22,129	4.6	26,996	2.4	18,508	3.2	9,090	3.4
Office expenses	5,601	3.9	42,113	8.7	62,599	5.6	48,913	8.4	2,997	1.1
[REDACTED] expenses	—	—	—	—	12,518	1.1	—	—	20,415	7.7
Others[(1)]	11,636	8.2	57,651	11.9	127,669	11.4	60,249	10.4	24,200	9.2
Total	**142,424**	**100.0**	**484,342**	**100.0**	**1,119,886**	**100.0**	**579,719**	**100.0**	**264,922**	**100.0**

(1) Include primarily property management costs, logistic expenses, travel expenses, and tax and surcharge.

Employee benefit expenses primarily consisted of wages, salaries, bonuses, pension and other social security costs, and other employee welfares for our administrative and management personnel. Depreciation of right-of-use assets was related to office premises under long-term leases. Human resource outsourcing and other labor costs primarily consisted of commissions for contract workers for teaching support and other administrative purposes. Lease expenses were related to office premises under short-term leases for operational uses. Depreciation of property, plant and equipment was primarily related to our electronic equipment. Charges for licensed payment institutions primarily consisted of fees paid to third-party online payment platforms, such as Alipay and Weixin Pay, which generally represented a fixed percentage of the payments we received from our students using such channels. Office expenses were related to office furniture and supplies. **[REDACTED]** expenses were incurred in connection with our preparation for the **[REDACTED]**.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consisted of employee benefit expenses, promotion expenses, and human resource outsourcing and other labor costs. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our selling and marketing expenses were RMB116.2 million, RMB404.9 million, RMB704.1 million, RMB385.9 million and RMB253.1 million, respectively, representing 10.0%, 19.0%, 20.5%, 20.5% and 17.4% of our total revenue for the same periods, respectively. Our selling and marketing expenses as a percentage of our total revenue decreased from the six months ended June 30, 2021 to the six months ended June 30, 2022, primarily due to decreases in (1) promotion expenses as we have substantially established our nationwide network of local operational hubs and limited our promotional activities amid the regional resurgence of the COVID-19 in the first half of 2022, and (2) employee benefit expenses as a result of our employee structure optimization efforts. We expect that our selling and marketing expenses as a percentage of revenue will continue to remain at a relatively low level in the near term as we continue to grow our business and improve our operational efficiency.

The following table sets forth a breakdown of our selling and marketing expenses by nature 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)			
Employee benefit expenses	59,721	51.4	208,378	51.5	460,022	65.3	238,588	61.8	197,706	78.1
Promotion expenses	41,853	36.0	103,882	25.6	142,813	20.3	87,479	22.7	31,928	12.6
Human resource outsourcing and other labor costs	13,273	11.4	76,407	18.9	64,651	9.2	40,380	10.5	17,257	6.8
Others(1)	1,344	1.2	16,229	4.0	36,639	5.2	19,406	5.0	6,251	2.5
Total	**116,191**	**100.0**	**404,896**	**100.0**	**704,125**	**100.0**	**385,853**	**100.0**	**253,142**	**100.0**

(1) Include primarily travel expenses, office expenses, depreciation of property, plant and equipment, logistics expenses, and lease expenses.

Employee benefit expenses primarily consisted of wages, salaries, bonuses, pension and other social security costs, and other employee welfares for our sales and marketing personnel. Promotion expenses primarily consisted of advertising and other expenses incurred for branding and marketing purposes. Human resource outsourcing and other labor costs primarily consisted of commissions for contract workers involved in sales and marketing activities.

Research and Development Expenses

Our research and development expenses primarily consisted of employee benefit expenses and services fee for cloud storage. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our research and development expenses were RMB104.1 million, RMB124.4 million, RMB287.0 million, RMB111.7 million and RMB85.3 million, respectively, representing 9.0%, 5.8%, 8.4%, 5.9% and 5.9% of our total revenue for the same periods, respectively.

The following table sets forth a breakdown of our research and development expenses by nature 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)			
Employee benefit expenses	97,795	93.9	115,220	92.6	271,608	94.7	106,067	95.0	73,753	86.4
Services fee for cloud storage	4,525	4.4	7,619	6.1	10,905	3.8	4,324	3.9	7,076	8.3
Others[(1)]	1,797	1.7	1,550	1.3	4,446	1.5	1,276	1.1	4,519	5.3
Total	**104,117**	**100.0**	**124,389**	**100.0**	**286,959**	**100.0**	**111,667**	**100.0**	**85,348**	**100.0**

(1) Include primarily depreciation of property, plant and equipment and office expenses.

Employee benefit expenses primarily consisted of wages, salaries, bonuses, pension and other social security costs, and other employee welfares for our content and technological development personnel. Services fee for cloud storage primarily consisted of fees paid to third-party cloud service providers in connection with our technological development activities.

Net Impairment Losses on Financial Assets and Contract Assets

Net impairment losses on financial assets and contract assets primarily consisted of loss allowance provision for trade receivables, contract assets and other receivables. We had net impairment losses on financial assets and contract assets of RMB24,000, RMB0.9 million, RMB0.6 million, RMB1.5 million and RMB89,000 in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

Other Income

Other income primarily consisted of rental and sublease income, VAT refund and VAT reduction we are entitled to as an education service provider, and government grants. We had other income of RMB7.8 million, RMB9.8 million, RMB25.0 million, RMB9.9 million and RMB12.2 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

Other Gains/Losses, Net

Other gains/losses, net primarily consisted of fair value gains on financial assets at fair value through profit or loss relating to our wealth management products, early termination charges for lease agreements, donation, and net foreign exchange gains/losses. We had other gains, net of RMB4.7 million, RMB3.6 million, RMB1.2 million and RMB18.4 million in 2019, 2020, 2021 and the six months ended June 30, 2021, respectively, and other losses, net of RMB67.1 million in the six months ended June 30, 2022.

Finance Costs, Net

During the Track Record Period, finance income consisted of interests received, and finance costs consisted of finance costs on lease liabilities and net foreign exchange losses. We had finance costs, net of RMB2.0 million, RMB5.9 million, RMB17.7 million, RMB9.9 million and RMB8.3 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

Income Tax Expense/Credit

Our income tax expense/credit consisted of current income tax and deferred income tax. We incurred income tax expense of RMB30.0 million in 2019, and income tax credit of RMB32.7 million, RMB12.0 million and RMB24.8 million in 2020, 2021 and the six months ended June 30, 2021, respectively, and income tax expense of RMB30.5 million in the six months ended June 30, 2022.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Act and, accordingly, is not subject to income tax. We were not subject to Hong Kong profit tax during the Track Record Period as we did not have assessable profit in Hong Kong during such period.

Pursuant to the PRC Enterprise Income Tax Law and related regulations, enterprises which operate in China are generally subject to enterprise income tax at a statutory rate of 25% on the taxable profit. Enterprises recognized as a HNTE are entitled to a preferential tax rate of 15% for three years as long as the HNTE status is valid, and qualified entities may re-apply for an additional three years if their business operations continue to qualify for the HNTE status. Fenbi Bluesky was recognized as an HNTE in December 2016 and renewed the HNTE status in December 2019. As a result, Fenbi Bluesky was subject to a preferential tax rate of 15% during the Track Record Period. In addition, Nanjing Youxue Culture Media Co., Ltd. and Beijing Shengshi Jintu Culture Communication Co., Ltd. were qualified as small-and-micro enterprises and were subject to a preferential tax rate of 5% during the Track Record Period. Pursuant to the preferential tax treatment available to small-and-micro enterprises, the first RMB1 million of their annual assessable profits is eligible for a 75% deduction and is entitled to a reduced enterprise income tax rate of 20%, and the portion of the annual assessable profits between RMB1 million and RMB3 million is eligible for a 50% deduction and is entitled to a reduced enterprise income tax rate of 20%. According to relevant laws and regulations promulgated by the State Council that was effective from 2008 onwards, enterprises engaging in R&D activities were entitled to claim Super Deduction. SAT announced in September 2018 that enterprises engaging in R&D activities would be entitled to claim 175% of their research and development expenses as Super Deduction from January 1, 2018 to December 31, 2020. From 2021 onwards, the Super Deduction ratio has increased to 200%. We have made our best estimate for the Super Deduction to be claimed in ascertaining assessable profits. See "Risk Factors — Risks Relating to Our Business and Industry — The discontinuation of any preferential tax treatments available to us in China could adversely affect our results of operations and financial condition."

During the Track Record Period and up to the Latest Practicable Date, we had paid all relevant taxes when due and there were no matters in dispute or unresolved with the relevant tax authorities.

Profit/Loss for the Year/Period

As a result of the foregoing, 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.

BUSINESS SUSTAINABILITY

As a market leader in China's career test preparation industry, we are committed to refining and transforming the traditional industry landscape, making quality tutoring services more accessible and efficient. Our strategy has been driving long-term and sustainable growth of our business and creating more value in the industry through continuous innovation initiatives, rather than focusing on short-term profitability. As such, we have been investing significantly into our OMO model, forming a nationwide offline network of local operational hubs, leveraging our solid online presence, and assembling a deep bench of qualified teaching staff. We have also prioritized in-house R&D initiatives since the early stage of our business to build sophisticated technology infrastructure and drive industry-leading technological innovations. We believe some of these investments have yielded immediate results, while others will bring long-term benefits to our sustainable business development and strengthen our competitive advantages. Going forward, we expect to achieve and maintain profitability and generate net operating cash inflow primarily through continuous revenue growth and improved cost efficiency.

Driving Continuous Revenue Growth

As we generate revenue primarily from the provision of tutoring services, the sustainable growth of our revenues primarily depends upon (1) the increase of our paid enrollments, in particular the paid enrollments of our formal courses, and (2) the value per paid enrollment.

Paid enrollments

As competition in the job market has continued to intensify, an increasing number of job-seekers purchased and may continue to purchase career test preparation services, and as a result, the penetration rate of career test preparation services in China is expected to increase from 25.6% in 2021 to 28.9% in 2026, according to the F&S Report. We believe that, leveraging our accessible and effective online platform, backed by industry-leading technology, we are well-positioned to continue to capitalize on the favorable industry trends and reinforce our market leadership. We intend to expand our online course offerings, refine our online products and toolkits, and strengthen our technological capability to continuously grow our paid enrollments. For example, we plan to launch new interview test courses for Civil Servants Examinations, which, unlike our traditional ones, will start prior to the release of the written test results and primarily target students who believe that they could pass the written tests, allowing them to have more preparation time to improve their passage rates. We plan to offer this series through both online and offline channels with a course fee ranges from approximately RMB1,500 to RMB9,000. In addition, we plan to continuously expand the coverage of examination subjects of our course offerings with a focus on launching additional public institution employees examination tutoring courses for various institutions and positions, as well as teacher qualification and recruitment examination tutoring courses for more disciplines. We believe that, with our comprehensive course offerings, we will continue to improve and advance our business and financial performance.

To drive our overall revenue growth and achieve long-term profitability at scale, we expect to continue to leverage our OMO model and data-driven insights into market trends and student preferences to facilitate customer acquisition. Leveraging our large user base and strong reputation accumulated from our online business, we are able to identify and convert prospective students with offline education needs to our offline course offerings with premium pricing, which allows us to scale our offline operations and grow our overall business rapidly. In 2021, approximately 67.5% of all students who paid for our offline courses were converted from students who had previously paid for our online offerings. Since the launch of our offline course offerings on a large-scale basis in May 2020 and up to June 30, 2022, our offline sector had contributed approximately 1.7 million paid enrollments. We believe we have substantial advantages over our competitors in terms of customer acquisition costs by virtue of our OMO model and strong brand awareness. In 2021, we recorded selling and marketing expenses per paid enrollment of approximately RMB72.0, as compared to that of over hundreds of Renminbi of our major competitors. Going forward, we will continue to capitalize on such synergy to enhance our customer acquisition and revenue-generating capability. In addition, as we are not required to make heavy selling and marketing investments, we have been focused on, and can devote greater resources to, our content development and teaching staff training to improve teaching quality, as well as our technology infrastructure to improve user experience, so as to strengthen our brand and reputation to further lower customer acquisition costs, forming a virtuous cycle. Furthermore, as we have successfully built our nationwide coverage and established our offline operations team, we intend to increase paid enrollments of our classroom-based courses in a cost-effective and asset-light manner. Since the launch of our classroom-based tutoring on a large-scale basis in May 2020, we have established an extensive offline network of local operational hubs in select cities of various provinces. Our operational hub coverage increased from over 20 cities as of December 31, 2019 to over 220 cities as of June 30, 2022. We have also assembled a high-caliber teaching team to support our offline course offerings. Going forward, we will leverage our existing operational hubs to direct prospective students to attend offline courses in cities where our operational hubs are located and increase the utilization rate of our existing teaching staff, thereby increasing our paid enrollments and revenue at marginal cost.

Value per paid enrollment

We will strive to stimulate student spending on our platform through innovations in course setting and course delivery. For example, we successfully launched our classroom-based tutoring courses on a large-scale basis and our online premium courses during the Track Record Period, which contributed to raising the upper range of our course fees. In addition, we have been strategically focus on converting prospective students to paid enrollments for our online and classroom-based formal courses to realize upselling opportunities in our established student base. For example, the paid enrollments of our formal courses as a percentage of total tutoring courses increased from 23.4% in 2020 to 33.5% in 2021 and further to 46.2% in the six months ended June 30, 2022. Moreover, the paid enrollments of our online premium courses as a percentage of total online formal courses steadily increased from 1.4% in 2020 to 5.0% in 2021 and further to 9.2% in the six months ended June 30, 2022. Going forward, we plan to continuously develop an increasing number of diversified online premium courses with relatively high prices and offer flexible course packages to serve multifaceted needs of our students. See "Business — Growth Strategies" for details.

Reducing Costs and Expenses as Percentage of Revenue

Cost of sales

Our employee benefit expenses recorded as cost of sales, which primarily consisted of wages, salaries, bonuses, pension and other social security costs, and other employee welfares paid to members of our teaching team, were RMB123.8 million, RMB670.1 million, RMB1,439.9 million, RMB792.1 million and RMB382.2 million, respectively, in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, representing 19.8%, 40.8%, 55.6%, 50.7% and 50.2% of our cost of sales of the same periods, respectively. We believe that we can effectively control our cost of sales by maintaining our related employee benefit expenses at a moderate level. The significant increase during the Track Record Period was primarily due to an increase in the headcount of our teaching team to accommodate our business growth and support our offline expansion. The number of our instructors and other teaching staff increased significantly from approximately 800 as of December 31, 2019 to approximately 7,700 as of December 31, 2020 and further to approximately 10,000 as of March 31, 2021, which was a relative peak number of our teaching team. Specifically, we incurred substantial costs to recruit a high-caliber teaching team in preparation for our new course offerings, such as our classroom-based tutoring courses and online premium courses, which affected our results of operations in the short term. To further improve our operational efficiency and profitability, and taking into account the short-term impact of the COVID-19 pandemic on our classroom-based tutoring services, we optimized the structure of our teaching team to comprise approximately 5,300 members as of December 31, 2021 and further to approximately 4,100 members as of June 30, 2022, as compared to approximately 10,000 as of March 31, 2021. We carried out inter-disciplinary training for our full-time instructors since early 2021 so as to enable them to deliver both written test and interview test courses, thereby increasing instructors' teaching hours and the number of students each instructor could serve. In addition, we frequently review the performance of our full-time instructors after each examination cycle based on comprehensive criteria and selectively retained instructors who are capable of hosting high-quality large classes and/or delivering targeted tutoring under the premium course setting to maintain the quality of our courses while improving our teacher utilization. As a result, as evidenced by the comparison of our financials for the nine months ended September 30, 2021 and the full year ended December 31, 2021, we maintained healthy revenue scale and level of paid enrollments in the fourth quarter of 2021 while the number of our instructors and other teaching staff decreased from approximately 6,300 members as of September 30, 2021 to approximately 5,300 members as of December 31, 2021. Moreover, the gross margin for our classroom-based tutoring services narrowed from (11.1)% in 2020 to (0.3)% in 2021, and the overall gross profit margin increased from 23.0% in 2020 to 24.5% in 2021. In particular, the gross margin of our classroom-based tutoring services improved from (3.6)% for the nine months ended September 30, 2021 to (0.3)% for the full year ended December 31, 2021, indicating a positive gross margin in the fourth quarter of 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 such, we believe that we will be able to increase our operational efficiency and continue to grow our business.

As employee benefit expenses for our teaching staff is the major component of our cost of sales, we will closely monitor class size and the utilization level of our teaching staff to ensure a healthy profit margin. Going forward, we will focus on increasing the utilization level of our teaching staff, such as increasing the number of students each teaching staff serves and the number of their teaching hours without compromising the teaching quality and the learning experience for our students. We will also continue to improve the teaching efficacy and efficiency of our instructors with advanced technology. For example, we intend to develop voice recognition technology to automate the interview test grading process with emotional intelligence, which could discharge our instructors from monotonous tasks and redirect their attention to substantive tutoring service. See "Business — Growth Strategies." In addition, we will reinforce our efforts in inter-disciplinary training to strategically cultivate instructors capable of teaching multiple course subjects to further improve the capacity and productivity of our teaching staff. As such, we expect that our investment in teaching related employee benefit expenses as a percentage of revenue will decrease as we continue to improve the utilization rate of our existing teaching staff.

Operating expenses

During the Track Record Period, we rapidly established an extensive network of offline operations. Expanding into new geographical markets poses challenges and uncertainties, and requires us to make investments in management, financial, marketing and other resources. We typically establish subsidiaries and branch offices in select cities of a region, which operate as local operational hubs for such region. Leveraging on such operational hubs, we gradually attract students from adjacent cities of the same region and provide them with classroom-based courses in classrooms set up by our local operational hubs. In addition to the employee benefits expenses incurred under cost of sales for local teaching staff, we generally incur substantial operating expenses in connection with our newly established offline subsidiaries and branch offices, such as rental, renovation expenses, property management fees, depreciation and amortization, promotion expenses and other miscellaneous fees, as well as employee benefits expenses for our local supportive staff, such as administrative and sales and marketing staff. We believe such initial investments were indispensable to the expansion of our geographical coverage in order to capture the significant offline monetization opportunities and achieve our long-term profitable growth. However, it takes time for a newly established local operational hub to attract students from the target area and generate revenue.

We believe we have substantially established our nationwide network of local operational hubs. To effectively manage our growth and improve our profitability and taking into account the impact of the COVID-19 pandemic on our classroom-based tutoring in the near term, we strategically adjusted the scale of our operational hub coverage from over 300 cities as of September 30, 2021 to over 260 cities as of December 31, 2021, and further to over 220 cities as of June 30, 2022. Going forward, we plan to mainly leverage the existing local operational hubs to promote our classroom-based courses and direct more prospective students from the surrounding areas to attend our courses. As such, we expect to increase our paid enrollments in a cost-effective and asset-light manner. In addition, in order to improve our operational efficiency, especially considering the impact of the COVID-19 pandemic on our classroom-based tutoring in the near term, we have optimized our offline employee structure. The number of our full-time employees, excluding teaching staff, was over 4,000 as of September 30, 2021 and over 3,600 as of December 31, 2021 and further to over 3,300 members as of June 30, 2022, as compared to a relatively peak number of over 6,700 as of March 31, 2021. We also plan to further optimize our operating efficiency through technological innovation. For example, we will develop technology-enhanced smart classrooms to streamline our offline operations, such as student administration, profile management and after-class supervision. Going forward, as we have substantially established our offline operations, we do not expect to make significant investment in establishing additional operational hubs, which was one of the major factors leading to our losses during the Track Record Period. As such, we expect that our operating expenses as a percentage of revenue will decrease as we continue to improve the operating efficiency and economies of scale of our offline operations.

Our Directors consider that our business model is sustainable despite short-term loss-making, for the following reasons.

- Following the optimization of our employee structure, we have significantly improved our results of operations and financial condition. 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, we recorded adjusted net profit (non-IFRS measure) of RMB95.6 million in the six months ended June 30, 2022, as compared to adjusted net loss (non-IFRS measure) of RMB540.8 million in the six months ended June 30, 2021.

- As discussed above, we have formulated and begun to implement specific strategies and concrete plan to drive continuous revenue growth and enhance our operating efficiency, thereby improving our profitability and operating cash flows, such as increasing the utilization level of our teaching staff, developing new course offerings for diversified customer needs, and continuing to invest in content development and technological innovation. Specifically, we selectively retained high-caliber instructors during the employee structure optimization process to improve our teacher utilization and maintain the quality of our courses. In April 2022, we consolidated certain supportive positions for our classroom-based tutoring services that had overlapping responsibilities and strategically reallocated various workstreams among remaining employees, which we believe will further increase our operational efficiency and improve our cost structure. In addition, we will remain prudent with respect to geographical expansion, which will be launched only when there is underserved demand. We will also closely monitor the development of the COVID-19 pandemic and related government measures in China to assess the impact on our business and adjust our strategies accordingly.

- We believe that our established OMO model, robust Fenbi online platform, nationwide offline network of local operational hubs, qualified teaching staff, sophisticated technology infrastructure and industry-leading technological innovations will collectively allow us to continue to capture the growing demand in the non-formal VET industry, bring long-term benefits to our sustainable business development, and strengthen our competitive advantages.

Having taken into account the factors above, the independent due diligence work conducted by the Joint Sponsors and the view of the Directors, the Joint Sponsors concur with the above-mentioned Directors' view.

The foregoing forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause the actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. For related risks, see "Risk Factors — Risks Relating to Our Business and Industry — If we fail to manage our growth effectively, our business, results of operations and financial condition could be materially and adversely affected."

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Revenue

Our revenue decreased by 23.0% from RMB1,885.4 million in the six months ended June 30, 2021 to RMB1,451.0 million in the six months ended June 30, 2022, for the following reasons.

- *Online tutoring services*. Our revenue generated from online tutoring services increased by 5.6% from RMB678.8 million in the six months ended June 30, 2021 to RMB716.8 million in the six months ended June 30, 2022, primarily due to an increase in revenue generated from online premium courses from RMB125.0 million in the six months ended June 30, 2021 to RMB210.6 million in the six months ended June 30, 2022, which was in turn attributable to an increase in the related paid enrollments from 53,000 to 104,000 during the same period.

- *Classroom-based tutoring services*. Our revenue generated from classroom-based tutoring services decreased by 47.9% from RMB1,005.5 million in the six months ended June 30, 2021 to RMB523.5 million in the six months ended June 30, 2022, primarily due to a decrease in the paid enrollments of our classroom-based formal courses from 287,000 in the six months ended June 30, 2021 to 110,000 in the six months ended June 30, 2022 as a result of (1) the suspension of our classroom-based tutoring services in certain localities and the postponement of certain examinations amid the regional resurgence of the COVID-19 pandemic in the first half of 2022, and (2) the strategic adjustment of the scale of our offline coverage to effectively manage our growth and improve our profitability, which reduced the number of our operational hubs from 363 as of December 31, 2021 to 276 as of June 30, 2022.

- *Sales of books*. Our revenue generated from sales of books increased by 4.7% from RMB201.1 million in the six months ended June 30, 2021 to RMB210.7 million in the six months ended June 30, 2022, primarily due to the increased sales volume of our textbooks and learning materials.

Cost of sales

Our cost of sales decreased by 51.3% from RMB1,562.9 million in the six months ended June 30, 2021 to RMB761.7 million in the six months ended June 30, 2022 for the following reasons.

- *Online tutoring services*. Our cost of sales incurred for online tutoring services decreased by 27.9% from RMB394.9 million in the six months ended June 30, 2021 to RMB284.8 million in the six months ended June 30, 2022, primarily due to decreases in (1) cost of course materials 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, and (2) employee benefit expenses as a result of our optimization of employee structure and decreased share-based payments as compared to the six months ended June 30, 2021. Specifically, the number of our instructors and other teaching staff for online tutoring services decreased from 3,360 as of June 30, 2021 to 2,703 as of June 30, 2022.

- *Classroom-based tutoring services*. Our cost of sales incurred for classroom-based tutoring services decreased by 67.5% from RMB1,024.1 million in the six months ended June 30, 2021 to RMB333.3 million in the six months ended June 30, 2022, primarily due to the decreases in (1) employee benefit expenses as a result of our optimization of employee structure, and (2) lease expenses as a result of the strategic adjustment of the scale of our offline coverage. Specifically, the number of our instructors and other teaching staff for classroom-based tutoring services decreased from 5,377 as of June 30, 2021 to 1,372 as of June 30, 2022.

- *Sales of books*. Our cost of sales incurred for sales of books remained relatively stable at RMB143.9 million and RMB143.6 million in the six months ended June 30, 2021 and 2022, respectively, primarily due to a decrease in the cost of course materials 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, partially offset by the increases in (1) human resource outsourcing and other labor costs to support our in-house printing facilities, and (2) logistic expenses caused by the regional resurgence of the COVID-19 pandemic in the first half of 2022.

Gross profit and gross margin

Our gross profit increased significantly from RMB322.5 million in the six months ended June 30, 2021 to RMB689.3 million in the six months ended June 30, 2022, and the corresponding gross profit margin increased from 17.1% to 47.5%.

- *Online tutoring services*. Our gross profit margin for 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.

- *Classroom-based tutoring services*. We recorded a gross profit margin of 36.3% for classroom-based tutoring services in the six months ended June 30, 2022, as compared to a gross margin of (1.9)% in the six months ended June 30, 2021, primarily because (1) 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, and (2) 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 in the second half of 2021.

- *Sales of books*. Our gross profit margin for 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.

Administrative expenses

Our administrative expenses decreased by 54.3% from RMB579.7 million in the six months ended June 30, 2021 to RMB264.9 million in the six months ended June 30, 2022, primarily due to decreases in (1) employee benefit expenses as a result of our employee structure optimization efforts, (2) office expenses, depreciation of right-of-use assets and lease expenses as a result of our strategic adjustment of the scale of our offline coverage, and (3) human resource outsourcing and other labor costs. Our administrative expenses as a percentage of our total revenue decreased from 30.7% in the six months ended June 30, 2021 to 18.3% in the six months ended June 30, 2022 as a result of our efforts to effectively manage our growth and improve our profitability.

Selling and marketing expenses

Our selling and marketing expenses decreased by 34.4% from RMB385.9 million in the six months ended June 30, 2021 to RMB253.1 million in the six months ended June 30, 2022, primarily due to decreases in (1) promotion expenses as we have substantially established our nationwide network of local operational hubs and limited our promotional activities amid the regional resurgence of the COVID-19 in the first half of 2022, and (2) employee benefit expenses as a result of our employee structure optimization efforts. Our selling and marketing expenses as a percentage of our total revenue decreased from 20.5% in the six months ended June 30, 2021 to 17.4% in the six months ended June 30, 2022 as a result of our efforts to effectively manage our growth and improve our profitability.

Research and development expenses

Our research and development expenses decreased by 23.6% from RMB111.7 million in the six months ended June 30, 2021 to RMB85.3 million in the six months ended June 30, 2022, primarily due to a decrease in employee benefit expenses as a result of our employee structure optimization efforts and decreased share-based payments as compared to the six months ended June 30, 2021. Our research and development expenses as a percentage of our total revenue remained relatively stable at 5.9% in the six months ended June 30, 2021 and 2022.

Net impairment losses on financial assets and contract assets

Our net impairment losses on financial assets and contract assets decreased by 94.0% from RMB1.5 million in the six months ended June 30, 2021 to RMB89,000 in the six months ended June 30, 2022, primarily due to a decrease in other receivables, which resulted from the decreased deposits receivable relating to leased properties in connection with the adjustment of our offline coverage.

Other income

Our other income increased by 22.8% from RMB9.9 million in the six months ended June 30, 2021 to RMB12.2 million in the six months ended June 30, 2022, primarily due to an increase in rental and sublease income as a result of our sublease of vacant leased properties in connection with our adjustment of offline coverage.

Other gains/losses, net

We recorded other losses, net of RMB67.1 million in the six months ended June 30, 2022, as compared to other gains, net of RMB18.4 million in the six months ended June 30, 2021, primarily due to (1) net foreign exchange losses of RMB43.9 million resulting from depreciation in the value of Renminbi relative to U.S. dollar, as financing proceeds denominated in U.S. dollars and received through our Hong Kong subsidiary were converted into Renminbi from time to time at the then prevailing exchange rates in order to be distributed to our PRC subsidiaries, which were translated into U.S. dollars at the exchange rate prevailing at the balance sheet date when preparing the financial statement of our Hong Kong subsidiary, (2) net losses related to early termination of lease agreements and disposal of related leasehold improvements and net losses on disposal of property, plant and equipment in connection with our adjustment of offline coverage, and (3) net fair value losses on derivatives of RMB13.4 million as a result of the differences between the predetermined exchange rates and the actual exchange rates at the maturity dates of our derivatives.

Finance costs, net

Our finance cost, net decreased by 16.1% from RMB9.9 million in the six months ended June 30, 2021 to RMB8.3 million in the six months ended June 30, 2022, primarily due to a decrease in finance cost on lease liabilities in connection with our adjustment of offline coverage, partially offset by related net foreign exchange losses.

Income tax expense/credit

We recorded income tax expense of RMB30.5 million in the six months ended June 30, 2022, as compared to income tax credit of RMB24.8 million in the six months ended June 30, 2021, primarily because we recognized deferred tax assets for eligible losses we carried forward from previous years in the six months ended June 30, 2021, and recorded taxable profits in the six months ended June 30, 2022, which led to reversal of deferred tax assets previously recognized.

Loss for the period

As a result of the foregoing, we recorded net loss of RMB945.5 million and RMB391.8 million in the six months ended June 30, 2021 and 2022, respectively, representing net loss margin of 50.1% and 27.0%, respectively.

Adjusted net profit/loss (non-IFRS measure)

We used adjusted net profit/loss (non-IFRS measure) to supplement our consolidated financial statements. We recognized adjusted net loss (non-IFRS measure) of RMB540.8 million and adjusted net profit (non-IFRS measure) of RMB95.6 million in the six months ended June 30, 2021 and 2022, respectively. See "— Non-IFRS Measure" for a reconciliation of our profit/loss for the period to our adjusted net profit/loss (non-IFRS measure).

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

Revenue

Our revenue increased by 60.8% from RMB2,132.1 million in 2020 to RMB3,428.6 million in 2021 for the following reasons.

- *Online tutoring services.* Our revenue generated from online tutoring services increased by 41.6% from RMB986.2 million in 2020 to RMB1,396.1 million in 2021, primarily due to (1) an increase in paid enrollments of online formal courses from 1.5 million in 2020 to 2.2 million in 2021, and (2) the changes in our offering mix as we launched premium courses, which were priced higher than other courses, in June 2020, both of which led to an increase in the gross billings from our online tutoring services from RMB1,358.3 million in 2020 to RMB2,140.4 million in 2021.

- *Classroom-based tutoring services.* Our revenue generated from classroom-based tutoring services increased by 82.4% from RMB886.5 million in 2020 to RMB1,617.3 million in 2021, primarily because we launched our classroom-based tutoring on a large-scale basis in May 2020, as a result of which the paid enrollments of our classroom-based courses increased from 710,000 in 2020 to 836,000 in 2021, and the total gross billings from classroom-based tutoring services increased from RMB2,790.0 million in 2020 to RMB4,404.0 million in 2021.

- *Sales of books.* Our revenue generated from sales of books increased by 60.1% from RMB259.3 million in 2020 to RMB415.1 million in 2021, primarily due to (1) the increased sales volume of our standalone sales activities driven by the accumulated brand recognition and teaching quality, and to a lesser extent, (2) the increased sales that accompany our course delivery, which was generally in line with the increase in our paid enrollments.

Cost of sales

Our cost of sales increased by 57.6% from RMB1,642.1 million in 2020 to RMB2,587.7 million in 2021 for the following reasons.

- *Online tutoring services.* Our cost of sales in relation to online tutoring services increased by 37.7% from RMB494.3 million in 2020 to RMB680.5 million in 2021, primarily due to an increase in employee benefit expenses as we initially recruited more teaching staff in connection with the launch of our premium courses in June 2020, partially offset by a decrease in human resource outsourcing and other labor costs. Specifically, the number of our instructors and other teaching staff for online tutoring services increased from 115 at the beginning of 2020 to 2,732 at the beginning of 2021. The number of our instructors and other teaching staff for online tutoring services was 2,946 as of December 31, 2021.

- *Classroom-based tutoring services.* Our cost of sales in relation to classroom-based tutoring services increased by 64.7% from RMB985.1 million in 2020 to RMB1,622.2 million in 2021 as a result of our continued offline expansion efforts, primarily including the increases in (1) employee benefit expenses as we initially recruited more teaching staff to support our offline expansion, and (2) lease expenses to accommodate increased classroom-based courses. Specifically, the number of our instructors and other teaching staff for classroom-based tutoring services increased from 640 at the beginning of 2020 to 4,939 at the beginning of 2021. Following our employee structure optimization, the number of our instructors and other teaching staff for classroom-based tutoring services was 2,356 as of December 31, 2021.

- *Sales of books.* Our cost of sales in relation to sales of books increased by 75.1% from RMB162.8 million in 2020 to RMB285.0 million in 2021, primarily due to the increases in (1) cost of course materials as a result of our increased sales volume and the increased market price of paper driven by market demand, (2) employee benefit expenses to accommodate our business growth, and (3) logistic expenses in line with our increased sales.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 71.6% from RMB489.9 million in 2020 to RMB840.9 million in 2021, and the corresponding gross profit margin increased from 23.0% to 24.5%.

- *Online tutoring services.* The gross profit margin of our online tutoring services remained relatively stable at 49.9% and 51.3% in 2020 and 2021, respectively.

- *Classroom-based tutoring services.* We recorded a gross margin of (0.3)% for our classroom-based tutoring services in 2021, as compared to a 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.

- *Sales of books*. 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.

Administrative expenses

Our administrative expenses increased significantly from RMB484.3 million in 2020 to RMB1,119.9 million in 2021, primarily due to the increases in (1) employee benefit expenses as a result of (i) the increase in share-based payments, (ii) the temporary increase in the headcount of administrative and management personnel we admitted to support our continued business growth, and (iii) the discontinuation of government relief policies in 2021, which exempted or reduced our social insurance contribution during the COVID-19 outbreak in 2020, and (2) depreciation of right-of-use assets, depreciation of property, plant and equipment and expense relating to short-term leases as a result of the increases in our office premises, equipment and facilities to support our offline expansion. Our administrative expenses as a percentage of our total revenue increased from 22.7% in 2020 to 32.7% in 2021 as we incurred substantial costs to support our offline expansion.

Selling and marketing expenses

Our selling and marketing expenses increased by 73.9% from RMB404.9 million in 2020 to RMB704.1 million in 2021, primarily due to the increases in (1) employee benefit expenses as a result of (i) the temporary increase in the headcount of sales and marketing personnel we admitted, (ii) the increase in share-based payments, and (iii) the discontinuation of government relief policies in 2021, which exempted or reduced our social insurance contribution during the COVID-19 outbreak in 2020, and (2) promotion expenses as a result of our enhanced efforts to promote our services and brand in support of our offline expansion. Our selling and marketing expenses as a percentage of our total revenue increased from 19.0% in 2020 to 20.5% in 2021 as we incurred substantial costs to support our offline expansion.

Research and development expenses

Our research and development expenses increased significantly from RMB124.4 million in 2020 to RMB287.0 million in 2021, primarily due to an increase in employee benefit expenses as a result of (1) the increase in the headcount of our R&D personnel, (2) the discontinuation of government relief policies in 2021, which exempted or reduced our social insurance contribution during the COVID-19 outbreak in 2020, and (3) the increase in share-based payments. Our research and development expenses as a percentage of our total revenue increased from 5.8% in 2020 to 8.4% in 2021, primarily due to our enhanced R&D efforts to support our business expansion.

Net impairment losses on financial assets

Our net impairment losses on financial assets decreased by 30.6% from RMB0.9 million in 2020 to RMB0.6 million in 2021, primarily due to our enhanced collection efforts for other receivables.

Other income

Our other income increased significantly from RMB9.8 million in 2020 to RMB25.0 million in 2021, primarily due to an increase in VAT refund and VAT reduction along with our increased revenue.

Other gains, net

Our other gains, net decreased by 65.5% from RMB3.6 million in 2020 to RMB1.2 million in 2021, primarily due to net losses related to early termination of lease agreements and disposal of related leasehold improvements, partially offset by the increases in (1) fair value gains on financial assets at fair value through profit or loss relating to our wealth management products and (2) net foreign exchange gains.

Finance costs, net

Our finance costs, net increased significantly from RMB5.9 million in 2020 to RMB17.7 million in 2021, primarily due to an increase in finance cost on lease liabilities relating to our offline operations.

Income tax expense/credit

We had income tax credit of RMB32.7 million and RMB12.0 million in 2020 and 2021, respectively, primarily due to the increases in (1) tax losses for which no deferred tax assets was recognized and (2) expenses not deductible for taxation purpose, partially offset by an increase in tax credit calculated at applicable statutory tax rate as a result of our increased loss before income tax.

Loss for the year

As a result of the foregoing, we recorded net loss of RMB484.5 million and RMB2,046.0 million in 2020 and 2021, respectively, representing net loss margin of 22.7% and 59.7%, respectively.

Adjusted net loss (non-IFRS measure)

We used adjusted net profit/loss (non-IFRS measure) to supplement our consolidated financial statements. We recognized adjusted net loss (non-IFRS measure) of RMB362.8 million and RMB822.4 million in 2020 and 2021, respectively. See "— Non-IFRS Measure" for a reconciliation of our profit/loss for the year to our adjusted net profit/loss (non-IFRS measure).

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

Revenue

Our revenue increased by 83.7% from RMB1,160.3 million in 2019 to RMB2,132.1 million in 2020 for the following reasons.

- *Online tutoring services.* Our revenue generated from online tutoring services increased by 50.0% from RMB657.4 million in 2019 to RMB986.2 million in 2020, primarily due to an increase in the paid enrollments of our online tutoring courses and products from 5.9 million in 2019 to 8.9 million in 2020, along with an increase in the gross billings from our online tutoring services from RMB1,075.9 million in 2019 to RMB1,358.3 million in 2020, which was driven by, among other things, the launch of our premium courses in June 2020 and the popularity of our other courses and online learning products.

- *Classroom-based tutoring services.* Our revenue generated from classroom-based tutoring services increased significantly from RMB354.4 million in 2019 to RMB886.5 million in 2020, primarily due to the launch of our classroom-based tutoring on a large-scale basis in May 2020, as a result of which the paid enrollments of our classroom-based tutoring courses increased from 71,000 in 2019 to 710,000 in 2020, and the total gross billings from classroom-based tutoring services increased from RMB576.6 million in 2019 to RMB2,790.0 million in 2020.

- *Sales of books*. Our revenue generated from sales of books increased by 74.7% from RMB148.4 million in 2019 to RMB259.3 million in 2020, primarily due to (1) the increased sales volume of standalone sales activities driven by the accumulated brand recognition and teaching quality, and to a lesser extent, (2) the increased sales that accompany our course delivery, which was generally in line with the increase in our paid enrollments.

Cost of sales

Our cost of sales increased significantly from RMB624.1 million in 2019 to RMB1,642.1 million in 2020 for the following reasons.

- *Online tutoring services.* Our cost of sales in relation to tutoring services increased by 89.3% from RMB261.1 million in 2019 to RMB494.3 million in 2020, primarily due to the increases in employee benefit expenses and human resource outsourcing and other labor costs as we expanded our teaching team to support the launch of our premium course. Specifically, the number of our instructors and other teaching staff for online tutoring services increased from 115 as of December 31, 2019 to 2,732 as of December 31, 2020.

- *Classroom-based tutoring services.* Our cost of sales in relation to classroom-based tutoring services increased significantly from RMB264.3 million in 2019 to RMB985.1 million in 2020 as we incurred substantial costs, mainly including employee benefit expenses to expand our teaching team and lease expenses to expand our geographical coverage, to support the launch of our classroom-based tutoring on a large-scale basis in May 2020. Specifically, the number of our instructors and other teaching staff for classroom-based tutoring services increased from 640 as of December 31, 2019 to 4,939 as of December 31, 2020.

- *Sales of books.* Our cost of sales in relation to sales of books increased by 65.1% from RMB98.6 million in 2019 to RMB162.8 million in 2020, primarily due to an increase in cost of course materials relating to papers as a result of (1) our increased sales volume and (2) the increased unit price of paper due to the COVID-19 pandemic.

Gross profit and gross margin

As a result of the foregoing, our gross profit decreased by 8.6% from RMB536.2 million in 2019 to RMB489.9 million in 2020, and our gross profit margin decreased from 46.2% in 2019 to 23.0% in 2020.

- *Online tutoring services.* 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.

- *Classroom-based tutoring services.* 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.

- *Sales of books.* 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.

Administrative expenses

Our administrative expenses increased significantly from RMB142.4 million in 2019 to RMB484.3 million in 2020, primarily because to accommodate our business growth and support our offline expansion, we experienced increases in (1) employee benefit expenses as a result of the increased headcount of administrative and management personnel, (2) human resource outsourcing and other labor costs due to increased headcount of contract workers, and (3) depreciation of right-of-use assets resulting from our increased number of office premises under long-term leases. Our administrative expenses as a percentage of our total revenue increased from 12.3% in 2019 to 22.7% in 2020 as we incurred substantial costs to support our offline expansion.

Selling and marketing expenses

Our selling and marketing expenses increased significantly from RMB116.2 million in 2019 to RMB404.9 million in 2020, primarily due to the increases in (1) employee benefit expenses as a result of increased headcount of our sales and marketing personnel as part of our offline expansion plan, (2) promotion expenses as a result of our enhanced efforts in promoting our services and brand, in particular our online premium courses and classroom-based tutoring courses, and (3) human resource outsourcing and other labor costs. Our selling and marketing expenses as a percentage of our total revenue increased from 10.0% in 2019 to 19.0% in 2020 as we incurred substantial costs to support our offline expansion.

Research and development expenses

Our research and development expenses increased by 19.5% from RMB104.1 million in 2019 to RMB124.4 million in 2020, primarily due to an increase in employee benefit expenses as a result of the increased headcount of our research and development personnel to accommodate our business expansion. Our research and development expenses as a percentage of our total revenue decreased from 9.0% in 2019 to 5.8% in 2020, primarily because our revenue growth outpaced the increase in our research and development expenses as we enhanced the efficiency of our technological development activities.

Net impairment losses on financial assets

Our net impairment losses on financial assets increased significantly from RMB24,000 in 2019 to RMB0.9 million in 2020, primarily due to an increase in loss allowance provision for trade and other receivables.

Other income

Our other income increased by 25.0% from RMB7.8 million in 2019 to RMB9.8 million in 2020, primarily due to an increase in value-added tax deduction, partially offset by a decrease in sublease income relating to our sublease of vacant leased properties previously used for discontinued course offerings.

Other gains, net

Our other gains, net decreased by 25.0% from RMB4.7 million in 2019 to RMB3.6 million in 2020, primarily due to an increase in donation of RMB5.9 million in 2020 relating to the prevention and containment of COVID-19, partially offset by an increase in fair value gains of financial assets at fair value through profit or loss relating to our wealth management products.

Finance costs, net

Our finance costs, net increased significantly from RMB2.0 million in 2019 to RMB5.9 million in 2020, primarily due to an increase in finance cost on lease liabilities relating to our offline operations.

Income tax expense/credit

We had income tax credit of RMB32.7 million in 2020, as compared to income tax expense of RMB30.0 million in 2019, primarily due to loss before income tax we incurred in 2020, partially offset by an increase in tax losses for which no deferred tax assets was recognized.

Profit/Loss for the year

As a result of the foregoing, we recorded net profit of RMB154.1 million in 2019 and net loss of RMB484.5 million in 2020, representing net margin of 13.3% and negative 22.7%, respectively.

Adjusted net profit/loss (non-IFRS measure)

We used adjusted net profit/loss (non-IFRS measure) to supplement our consolidated financial statements. We recorded adjusted net profit (non-IFRS measure) of RMB175.2 million in 2019 and adjusted net loss (non-IFRS measure) of RMB362.8 million in 2020. See "— Non-IFRS Measure" for a reconciliation of our profit/loss for the year to our adjusted net profit/loss (non-IFRS measure).

DISCUSSION OF MAJOR BALANCE SHEET ITEMS

The following table sets forth details of our summary 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**

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
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**

Property, Plant and Equipment

Our property, plant and equipment consisted of machinery, electronic equipment, motor vehicles, furniture, fittings and equipment, construction-in-progress, and leasehold improvements.

Our property, plant and equipment increased from RMB19.1 million as of December 31, 2019 to RMB133.6 million as of December 31, 2020, primarily due to the increases in leasehold improvements and electronic equipment in connection with our offline expansion and overall business growth. Our property, plant and equipment further increased to RMB231.1 million as of December 31, 2021, primarily due to the increases in (1) leasehold improvements and electronic equipment in connection with our offline expansion and overall business growth, and (2) printing machines for the production of our in-house developed textbooks and learning materials in line with the increased sales volume, partially offset by a decrease in electronic equipment as a result of disposal of surplus following the optimization of our employee structure. Our property, plant and equipment decreased to RMB164.3 million as of June 30, 2022, primarily due to decreases in leasehold improvements and electronic equipment in connection with the adjustment of our offline coverage.

Right-of-use Assets

Our right-of-use assets primarily consisted of office premises for our offline operations and classroom-based tutoring venues under long-term leases. Our right-of-use assets increased from RMB70.0 million as of December 31, 2019 to RMB338.1 million as of December 31, 2020, primarily due to newly leased properties in connection with our significant offline expansion efforts in May 2020. Our right-of-use assets further increased to RMB429.7 million as of December 31, 2021, primarily due to newly leased properties in connection with our offline expansion. Our right-of-use assets decreased to RMB269.6 million as of June 30, 2022, primarily due to termination of lease agreements in connection with the adjustment of our offline coverage.

Trade Receivables

Our trade receivables primarily consisted of amounts due from third-party book sellers for our textbooks and learning materials. We generally grant third-party book sellers a credit period of no more than 60 days.

Our trade receivables increased from RMB4.7 million as of December 31, 2019 to RMB7.5 million as of December 31, 2020, primarily due to our increased book sales. Our trade receivables decreased to RMB5.7 million as of December 31, 2021, primarily due to the reduced book sales as a result of the regional resurgence of COVID-19 cases in late 2021. Our trade receivables increased to RMB18.2 million as of June 30, 2022, primarily due to our increased book sales and printing services. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we recorded allowance for impairment of RMB51,000, RMB0.2 million, RMB0.1 million and RMB0.2 million, respectively.

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

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Trade receivables turnover days(1)	1	1	1	1

(1) Trade receivables turnover days was calculated based on the average of opening and closing balance of trade receivables for the relevant period, divided by the revenue for the same period, and multiplied by 365/183 days.

All of our trade receivables were aged within one year, which indicated our customers' prompt settlement of our trade receivables during the Track Record Period. The following table sets forth an aging analysis of our gross trade receivables as of the dates indicated based on the invoice date.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Up to one month	3,159	4,508	2,674	9,477
One to two months	457	1,392	1,461	2,246
Two to three months	1,025	1,344	726	5,525
Three to six months	150	463	837	621
Six to 12 months	—	—	72	582
Total	**4,791**	**7,707**	**5,770**	**18,451**

As of October 31, 2022, approximately RMB17.1 million, or 92.5%, of our trade receivables as of June 30, 2022 had been settled.

Contract Assets

Contract assets primarily represented our right to consideration in relation to our postpaid contractual classes that allow for postponed payment of a portion of the course fees only upon passing the relevant examinations. We began to offer these postpaid contractual classes for certain courses starting in 2020. We record a certain percentage of the course fees to be collected for postpaid contractual classes as contract assets based on the estimated passage rates and the service progress. We had contract assets of nil, nil, RMB20.5 million and RMB60.2 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. We did not record contract assets as of December 31, 2020 in consideration of prudence and materiality, primarily because (1) we started to offer postpaid contractual classes in 2020, and there were no historical passage rates available for us to reasonably derive an estimated passage rate for that year, and (2) we offered such classes at a limited scale in 2020, which we believe was insignificant to our financial position as of December 31, 2020. See "Business — Our Tutoring Services — Course Fees and Refund Policies." Our contract assets increased from RMB20.5 million as of December 31, 2021 to RMB60.2 million as of June 30, 2022, primarily because the Regional Civil Servants Examinations originally scheduled in the first half of 2022 had been postponed to the second half as a result of the regional resurgence of COVID-19 cases in China, leading to delayed settlement of contract assets.

The following table sets forth the number of our contract assets turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Contract assets turnover days(1)	—	—	1	5

(1) Contract assets turnover days was calculated based on the average of opening and closing balance of contract assets for the relevant period, divided by the revenue for the same period, and multiplied by 365/183 days.

After the examination results are released, we contact relevant students and request either payment of the course fees or proof of no-pass. As of October 31, 2022, 100.0% of our contract assets as of June 30, 2022 were certificated, which was settled by the relevant students.

The following table sets forth the number of our trade receivables and contract assets turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Trade receivables and contract assets turnover days(1)	2	1	2	7

(1) Trade receivables and contract assets turnover days was calculated based on the average of opening and closing balance of gross trade receivables and contract assets for the relevant period, divided by the revenue for the same period, and multiplied by the number of days in that period.

Inventories

Our inventories primarily consisted of finished goods, raw materials and work in progress primarily in connection with our sales of textbooks and learning materials. The following table sets forth the details of our inventories as of the date indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Finished goods	27,053	51,416	51,134	58,405
Raw materials	17,114	13,134	16,980	17,393
Work in progress	8,469	9,299	19,083	12,934
Total	**52,636**	**73,849**	**87,197**	**88,732**

Our inventories increased from RMB52.6 million as of December 31, 2019 to RMB73.8 million as of December 31, 2020 and further to RMB87.2 million as of December 31, 2021, generally in line with the increased sales of our textbooks and learning materials. Our inventories remained relatively stable at RMB88.7 million as of June 30, 2022.

The following table sets forth the number of our inventories turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Inventories turnover days(1)	36	14	11	21

(1) Inventories turnover days was calculated based on the average of opening and closing balance of inventories for the relevant period, divided by the cost of sales for the same period, and multiplied by 365/183 days.

The following table sets forth an aging analysis of our inventories as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Up to one year	48,902	69,049	86,307	82,505
One to two years	3,734	4,141	654	5,513
Two to three years	—	659	236	714
Total	**52,636**	**73,849**	**87,197**	**88,732**

As of October 31, 2022, approximately RMB65.0 million, or 73.3%, of our inventories as of June 30, 2022 had been delivered or consumed.

Our Directors are of the view that there is no material recoverability issue for our inventories, primarily because (1) a substantial portion of the inventories as of June 30, 2022 were aged less than one year, (2) our raw materials and certain finished goods, such as stationary, are generally not subject to expiration, and the finished goods aged over one year are not perishable or fragile products and can maintain saleable value, and (3) as for books and learning materials, we assessed their applicability from time to time and recorded cost of sales for forfeiture of any outdated ones, and therefore considered there was no material difficulty in the utilization of our inventories as of the end of each reporting period. As a result, we did not make any provisions for our inventories at the end of each reporting period.

Prepayment and Other Receivables

Our prepayment and other receivables primarily consisted of prepayment paid to our suppliers in our daily operations, such as landlords and property management service providers in connection with the leased properties for our classroom-based tutoring, as well as paper suppliers. The following table sets forth the details of our prepayment and other receivables as of the date indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Non-current portion:				
Prepayments for property, plant and equipment	331	1,857	420	1,531
Long-term receivables related to sublease income	—	—	2,663	1,262
Deposits receivable	10,909	11,891	32,214	17,774
Less: loss allowance	—	—	(63)	(29)
Subtotal	**11,240**	**13,748**	**35,234**	**20,538**
Current portion:				
Advances to suppliers	9,196	35,653	29,146	20,844
Prepayment for taxes	13,334	378	3,955	2,251
Deposits receivable	1,969	25,788	15,686	17,957
Current portion of long-term receivables	—	—	3,357	4,626
Loan to third party[1]	5,000	—	—	—
Input VAT recoverable	4,467	3,010	23,220	8,122
Amount due from related parties	4,000	640	2,993	152
Others[2]	7,794	12,734	20,314	22,699
Less: loss allowance	(267)	(1,056)	(1,544)	(766)
Subtotal	**45,493**	**77,147**	**97,127**	**75,885**
Total	**56,733**	**90,895**	**132,361**	**96,423**

(1) Represents an interest-bearing loan we provided to Supplier C, which had been fully repaid in August 2020. As advised by our PRC Legal Advisors, according to the relevant loan agreement and based on their inquiries into the transaction details with our Company, the arrangement is a private lending agreement concluded for production and business operations, and there is no indication of circumstances as stipulated in the Civil Code and specified in Article 13 of the Private Lending Regulations that causes the agreement to be invalid nor any dispute between the relevant parties regarding the arrangement. In addition, the annual interest rate of 8% under the agreement does not violate the relevant explicit provisions of the Private Lending Regulations. See "Business — Our Customers and Suppliers — Our Suppliers."

(2) Include primarily prepayments for employee reimbursement, **[REDACTED]** expenses, insurance policies and labor outsourcing services, as well as receivables relating to Alipay withdrawals and terminated leases.

Our prepayment and other receivables increased from RMB56.7 million as of December 31, 2019 to RMB90.9 million as of December 31, 2020, primarily due to the increases in (1) advances to suppliers for property management and (2) deposits receivable relating to rental, both of which were incurred for our newly leased properties for classroom-based tutoring during the offline expansion process. Our prepayment and other receivables further increased to RMB132.4 million as of December 31, 2021, primarily due to the increases in (1) deposits receivable relating to rental in connection with our offline expansion and (2) input VAT recoverable in line with our business growth. Our prepayment and other receivables decreased to RMB96.4 million as of June 30, 2022, primarily due to decreases in (1) deposits receivable and advances to suppliers relating to leased properties in connection with the adjustment of our offline coverage, and (2) input VAT recoverable as a result of decreased expenses not deductible for taxation purpose.

As of October 31, 2022, approximately RMB41.1 million, or 42.6%, of our prepayment and other receivables as of June 30, 2022 had been settled.

Cash and Cash Equivalents

Our cash and cash equivalents primarily consisted of bank deposits on demand. Our cash and cash equivalents increased from RMB161.8 million as of December 31, 2019 to RMB332.7 million as of December 31, 2020, generally in line with our business growth. Our cash and cash equivalents further increased to RMB1,159.9 million as of December 31, 2021, primarily because we raised US$389.4 million from the equity financing, which was completed in June 2021, and redeemed certain wealth management products in late 2021, partially offset by net cash used in operating activities. Our cash and cash equivalents increased to RMB1,253.5 million as of June 30, 2022, primarily due to our efforts in managing our growth and improving our profitability. See "— Liquidity and Capital Resources — Cash Flows" for details.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss primarily consisted of our investments in wealth management products and derivatives. The wealth management products we invested in during the Track Record Period were typically low-risk products issued by reputable and licensed commercial banks with risk ratings of no more than R2/PR2 or equivalent and estimated weighted average return rates ranging from 2.56% to 4.20% per annum, and were redeemable either on demand or within a short period of time after purchases. The wealth management products we purchased during the Track Record Period primarily invested in fixed-income instruments, such as cash, deposits, interbank deposits, treasury bonds, corporate bonds, short- to medium-term notes, standardized notes, money market funds and trust plans for the above-mentioned assets. We had financial assets at fair value through profit or loss of RMB280.2 million, RMB351.6 million, RMB10.1 million and nil as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively, all of which represented our investments in wealth management products. We also invested in foreign exchange derivatives during the Track Record Period to manage our exposure to foreign exchange risk in relation to proceeds from our equity financing denominated in US dollars, which presented no balance at the end of each reporting period during the Track Record Period.

Investment and treasury management policies

We may continue to invest in similar wealth management products and foreign exchange derivatives, in the future using our surplus cash. Starting from 2022, we typically redeem our investments in wealth management products upon their maturities before the end of each quarter. Our Board and the finance department are mainly responsible for making, implementing and supervising our investment decisions. We implemented during the Track Record Period, or will continue to implement, the following investment and treasury policies:

- the purpose of our investment in wealth management products is to preserve the time value of our cash reserves and to fund our business;
- we only invest in wealth management products when we have surplus cash that is not required for our short-term working capital purposes;
- our Board is responsible for the overall planning and our chief financial officer is responsible for the approval of our investment in wealth management products;
- our finance department is responsible for the purchase and management of our wealth management products and evaluates their respective terms including, among others, liquidity, risk and expected return before submitting them to our chief financial officer for final decision;

- we mainly make investments in short-term wealth management products issued by reputable and licensed commercial banks with low risk, high liquidity and reasonable returns, and diversify our investment portfolio to minimize risk exposure;

- we assess the risk associated with the underlying financial instruments based on the risk classification provided by the issuing licensed commercial bank or securities company; and

- we only invest in foreign exchange settlement products and other foreign exchange derivatives issued by financial institutions approved by SAFE and the PBOC to engage in foreign exchange transactions for the purpose of reducing our exposure to foreign currency exchange risk, and our foreign exchange related investment plans are subject to stringent internal review and approval procedures taking into consideration our working capital requirements.

In addition, we will comply with requirements under Chapter 14 of the Listing Rules and disclose the details of our investments or other notifiable transactions to the extent necessary and as appropriate after the **[REDACTED]**.

Financial Liabilities at Fair Value through Profit or Loss

Our financial liabilities at fair value through profit or loss were primarily related to convertible preferred shares issued in our equity financings, which will be re-designated as equity upon the **[REDACTED]**. We had financial liabilities at fair value through profit or loss of nil, RMB6,391.0 million, RMB8,756.2 million and RMB9,614.5 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. We applied discounted cash flow method to determine the underlying equity value of our Company and adopted option pricing method and equity allocation model to determine the fair value of the convertible preferred shares. See Note 26 to the Accountant's Report in Appendix I to this document for details.

Financial Value Measurements

We made judgments and estimates in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements. To indicate the reliability of inputs in determining the fair values, we classified our financial instruments into three levels prescribed under the accounting standards:

- Level 1: The fair value of financial instruments traded in active markets, such as publicly traded derivatives and trading and equity securities, is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by our Group is the current bid price. These instruments are included in level 1.

- Level 2: The fair value of financial instruments that are not traded in an active market, such as over-the-counter derivatives, is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There were no transfers between level 1, level 2 and level 3 during the Track Record Period.

The fair value of the financial assets at fair value through profit or loss is estimated by discounting the future cash flows at the current market interest rate available for similar financial instruments. The following tables set forth the fair value of our financial assets as of the dates indicated.

	Fair value as of December 31,			Fair value as of June 30, 2022	Fair value hierarchy	Unobservable inputs
	2019	2020	2021			
	(RMB in thousands)					
Financial Assets						
Wealth management products.	280,181	351,639	10,139	—	Level 3	The estimated weighted average return rates of these products were 2.56% to 4.20% per annum

The valuation techniques used to determine the fair value of our level 3 instruments are discounted cash flow method and option-pricing method. The following table sets forth the fair value of our financial liabilities as of the dates indicated.

Description	Fair value as of December 31,		Fair value as of June 30, 2022	Significant unobservable inputs	Range of inputs			Relationship of significant unobservable inputs to fair value
	2020	2021			2020	2021	Six months ended June 30, 2022	
	(RMB in thousands)							
Convertible preferred shares .	6,390,956	8,756,164	9,614,491	Discount rate	15%	13.5%	13.0%	The higher the discount rate, the lower the fair value.
				Discounts for lack of marketability	20%	10%–20%	10%–20%	The higher the discount for lack of marketability, the lower the fair value.
				Expected volatility	48.03%	49.68%–50.89%	52.29%–57.60%	The higher the expected volatility, the lower the fair value.

Our finance department performs the valuations of the financial instruments and reports directly to the chief financial officer. Discussions of valuation processes and results are held between the chief financial officer and the finance department annually. In relation to the valuation of level 3 instruments, our finance department and chief financial officer have (1) reviewed the terms of agreements relating to the instruments; (2) carefully considered all information especially those non-market related information input, such as the weighted average cost of capital, revenue projection and long-term revenue growth rate, which required management assessment and estimates; and, to the extent applicable, (3) engaged qualified third-party valuers, provided necessary financial and non-financial information to the valuers for them to assess our performed valuation procedures, discussed with the valuers on relevant assumptions and reviewed the valuation reports prepared by the valuers. Based on the above procedures and the professional advice received, our Directors are of the view that the valuation analysis performed on level 3 instruments is fair and reasonable and the financial statements of our Group are properly prepared. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the level 3 instruments. See Note 3.3 to the Accountant's Report in Appendix I to this document for more details.

In relation to the valuation of the level 3 financial instruments, the Joint Sponsors have conducted relevant due diligence work, including but not limited to (1) reviewed relevant notes to the Accountant's Report in Appendix I to this document; (2) reviewed relevant documents of the level 3 financial instruments provided by the Company; (3) reviewed the professional qualification of the qualified valuer engaged by the Company for certain level 3 financial instruments; (4) reviewed relevant valuation documents prepared by the qualified valuer for certain level 3 financial instruments; (5) conducted due diligence with the Company to understand the relevant policies, procedures and key basis and assumptions for the valuation of these level 3 financial instruments; and (6) discussed with the Reporting Accountant to understand the work they have performed in this regard. Having considered the above, nothing has come to the Joint Sponsors' attention that would cause them to question the relevant valuation work performed for the Company's level 3 financial instruments during the Track Record Period.

Details of the fair value measurements of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 3.3 of the Accountant's Report in Appendix I to this document which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on page I-1 to I-3 of Appendix I to this document.

Trade and Other Payables

Our trade and other payables primarily consisted of trade payables, accrued salaries and bonus and tax payables. The following table sets forth the details of our trade and other payables as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Trade payables	32,624	31,767	28,431	18,427
Accrued salaries and bonus	30,109	222,034	169,216	87,148
Tax payables (other than income tax payable)	12,486	54,013	91,788	33,168
Other payables	1,234	4,714	23,925	29,065
Total	**76,453**	**312,528**	**313,360**	**167,808**

Our trade payables primarily consisted of amounts payable to (1) suppliers of paper and printing services in connection with the sales of books, and (2) labor outsourcing vendors. Our trade payables remained relatively stable at RMB32.6 million, RMB31.8 million, RMB28.4 million and RMB18.4 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. Accrued salaries and bonus primarily represented wages, salaries, bonuses, pension and other social security costs, and other employee welfares due to our employees, including provisions made for the shortfall of our social insurance and housing reserve fund contributions. Our accrued salaries and bonus increased from RMB30.1 million as of December 31, 2019 to RMB222.0 million as of December 31, 2020, primarily due to an increase in the number of our employees to support our business expansion. Our accrued salaries and bonus decreased to RMB169.2 million as of December 31, 2021, primarily due to the decreased employee headcount as a result of our employee structure optimization. Our accrued salaries and bonus further decreased to RMB87.1 million as of June 30, 2022, primarily because (1) the accrued year-end bonus at the end of 2021 was paid in the first half of 2022, and no additional year-end bonus was accrued thereafter, and (2) the employee headcount decreased as a result of our employee structure optimization. Tax payables other than income tax payable primarily represented value-added tax payable and surcharges payable. Our tax payables increased during the Track Record Period in line with our business growth.

The following table sets forth the number of our trade payables turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
Trade payables turnover days[(1)] . . .	14	7	4	6

(1) Trade payables turnover days was calculated based on the average of opening and closing balance of trade payables for the relevant period, divided by the cost of sales for the same period, and multiplied by 365/183 days.

Our suppliers typically grant us a credit period of no more than 30 days. Substantially all of our trade payables were aged within one year. The following table sets forth an aging analysis of our trade payables as of the dates indicated based on the invoice date.

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
		(RMB in thousands)		
Within one year	32,531	31,747	28,348	18,375
One to two years	93	1	82	51
Over two years.	—	19	1	1
Total	**32,624**	**31,767**	**28,431**	**18,427**

As of October 31, 2022, approximately RMB17.8 million, or 96.6%, of our trade payables as of June 30, 2022 had been settled.

Contract Liabilities

Our contract liabilities primarily represented prepaid course fees we received from our students for our tutoring services, for which our performance obligation had not been satisfied. For non-contractual classes, a substantial portion of the fees received are initially recorded as contract liabilities based on an estimated withdrawal rate, which are subsequently recognized proportionately over the relevant service periods as revenue. For contractual classes, the courses fees for which we expect to be entitled based on the estimated refund rate are initially recorded as contract liabilities and subsequently recognized as revenue over the relevant service periods. Our contract liabilities increased from RMB109.3 million as of December 31, 2019 to RMB156.1 million as of December 31, 2020, and further to RMB169.2 million as of December 31, 2021, primarily due to our business growth driven by, among other things, our offline expansion. Our contract liabilities decreased to RMB157.6 million as of June 30, 2022, generally in line with the decrease in our gross billings as a result of the postponement of certain examinations caused by the COVID-19 resurgence in the first half of 2022.

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

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
		(RMB in thousands)		
Non-contractual classes.	77,469	111,138	113,744	124,069
Contractual classes	23,400	35,634	46,535	23,749
Online learning products	8,445	9,331	8,915	9,800
Total	**109,314**	**156,103**	**169,194**	**157,618**

As of October 31, 2022, RMB109.5 million, or 69.5%, of our contract liabilities as of June 30, 2022 had been recognized as our revenue.

Refund Liabilities

Our refund liabilities represented primarily the courses fees which we do not expect to be entitled to, including primarily the portion of course fees of our contractual classes for which we expect withdrawals or no-pass refund requests, and to a much lesser extent, the portion of course fees of other non-contractual classes at withdrawal and our online learning products, mainly including the challenge exercise product. As for our contractual classes, if our students fail to pass the examination as specified in our agreement, they are entitled to a partial or full refund for the course fees. See "Business — Our Tutoring Services — Course Fees and Refund Policies." Our refund liabilities increased from RMB196.1 million as of December 31, 2019 to RMB757.8 million as of December 31, 2020, primarily due to the increase in the paid enrollments of our contractual classes as we have launched an increasing number of contractual classes since 2020. The paid enrollments of our contractual classes increased from 35,200 in 2019 to 154,400 in 2020. Our refund liabilities decreased to RMB680.3 million as of December 31, 2021, 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 in the second half of 2021. Our refund liabilities remained relatively stable at RMB685.0 million as of June 30, 2022.

After the examination results are released, we will refund the course fees upon the completion of review of valid refund requests from our students and recognize the remaining refund liabilities as revenue only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As the actual refund requests may differ from our initial estimation, we may have to reverse revenue previously recognized or recognize additional revenue. During the Track Record Period, we estimated the expected refund rates in relation to contractual classes based on historical records of the refund claimed by the customers. When there are no sufficient historical records for us to estimate the behavior-based refund rates, revenue will not be recognized until uncertainty associated with the variable considerations is resolved, namely when it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Such circumstance may occur if we were to launch courses targeting a new examination sector. During the Track Record Period, there had been no such circumstances when there were no sufficient historical records, as while we had offered diversified courses in terms of, for example, course length, content and intensity, the examination sectors we covered remained relatively stable. See "— Critical Accounting Policies, Judgments and Estimates — Revenue Recognition" and Note 4(b) to the Accountant's Report in Appendix I to this document. Based on the actual valid refund requests we received after examination results were released and up to November 30, 2022, our actual refund obligation in relation to contractual classes was RMB23.8 million less than, RMB1.1 million more than and RMB88.5 million less than estimated in 2019, 2020 and 2021, respectively, representing 2.3%, 0.1% and 2.9% of our total revenue generated from tutoring services for the same periods, respectively. The actual refund obligation in relation to contractual classes was RMB58.5 million less than estimated in the six months ended June 30, 2022, representing 4.7% of our total revenue generated from tutoring services for the same period, without taking into consideration contractual classes for which the relevant examination results had not been released as of November 30, 2022, as the comparison for the refund status of such courses would not present meaningful results. Such difference between estimated and actual refund obligations may be subject to further changes while we may continue to receive and settle refund requests by students who took courses in the six months ended June 30, 2022 and recently received their examination results. Based on our experience and current estimation, we do not expect any major differences between the actual and estimated refund obligation in relation to contractual classes in the year ending December 31, 2022. Such difference would be recognized as revenue in the same year or the following year, depending on the timing of the results confirmation. As such, our revenue recognition based on the expected refund rate during the Track Record Period is not likely to result in a significant revenue reversal when the uncertainty associated with the variable consideration is subsequently resolved. During the Track Record Period and up to the Latest Practicable Date, our obligations to fulfil the refund requests had not materially and adversely affected our liquidity position.

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

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Non-contractual classes				
Estimated withdrawal refund	6,585	8,960	15,347	25,020
Contractual classes				
Estimated refund for the portion of courses fees that is subject to no-pass refund	183,395	730,508	637,075	628,418
Estimated refund for the portion of courses fees that is not subject to no-pass refund	3,392	14,032	24,032	26,287
Online learning products	2,731	4,252	3,839	5,277
Total	**196,103**	**757,752**	**680,293**	**685,002**

We determine the estimated withdrawal refund rates of non-contractual classes and the estimated refund rates of contractual classes with reference to their respective historical refund rates, which were ascertained by tracking the course fees received and refunded of historical orders on an ongoing basis. The timing of refunds for orders initiated in a given period may be carried over to the next calendar year. At the end of each year, we would revisit the actual refunds of previous orders to determine whether the estimated refund rates for the coming year should be adjusted. The estimated withdrawal refund rate adopted for non-contractual classes was 3.0% during the Track Record Period, without taking into account the withdrawals prior to the class start date, which we believe bears little impact on our results of operations and financial condition. As for the contractual classes, during the Track Record Period, the estimated refund rates adopted for the portion of courses fees that is subject to refund for no-pass ranged between 30.0% to 90.0% for different recruitment and qualification examinations, and the estimated refund rate adopted for the remaining portion of course fees was 20.0%. In addition, we adopted a 50% estimated refund rate for the challenge exercise product.

The following table sets forth the number of paid enrollments of contractual classes with actual subsequent refunds and the corresponding course fee refunded for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Number of paid enrollments	11,000	67,000	170,000	46,000
Course fee refunded *(RMB in thousands)*	193,475	1,020,800	2,612,102	522,339

The course fee refunded for contractual classes increased significantly from 2020 to 2021, primarily because (1) the course fee collected in relation to contractual classes increased from RMB2,042.6 million in 2020 to RMB3,565.5 million in 2021, leading to a corresponding increase in the course fee refunded and, to a lesser extent, (2) a portion of the refunds for courses relating to the 2020 Regional Civil Servants Examinations were delayed and carried out in 2021 as the relevant examinations were postponed due to the COVID-19 outbreak.

The following table sets forth an aging analysis of our refund liabilities as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Up to three months	91,816	418,910	253,077	121,846
Three to six months	49,056	224,090	210,763	303,496
Six to nine months	35,461	16,565	157,995	114,568
Nine to 12 months	19,658	15,454	20,962	73,412
Over one year	112	82,733	37,496	71,680
Total	**196,103**	**757,752**	**680,293**	**685,002**

Substantially all of our refund liabilities were aged within one year. Our refund liabilities aged over one year as of December 31, 2020 and 2021 were primarily related to contractual classes with a relatively long service period which we once offered in 2019 and 2020. Our refund liabilities aged between nine to 12 months and over one year increased as of June 30, 2022, primarily because the Regional Civil Servants Examinations originally scheduled in the first half of 2022 had been postponed to the second half, and accordingly the related settlement of refunds and recognition of revenue were delayed.

Movement of Contract Liabilities and Refund Liabilities

The following table sets forth the movements of our contract liabilities and refund liabilities during the Track Record Period.

	Non-contractual classes	Contractual classes	Online learning products	Total
	(RMB in thousands)			
For the year ended December 31, 2019				
Contract liabilities as of January 1, 2019	67,387	238	3,444	71,069
Refund liabilities as of January 1, 2019	4,660	48,411	151	53,222
Course fee collected[1]	795,764	573,521	93,252	1,462,537
Course fee refunded	(11,933)	(193,475)	(26,519)	(231,927)
Withdrawal refund	(11,933)	(57,493)	—	(69,426)
No-pass refund	—	(135,982)	—	(135,982)
Refund relating to online learning products	—	—	(26,519)	(26,519)
Revenue recognition[2]	(771,824)	(218,508)	(59,152)	(1,049,484)
Contract liabilities as of December 31, 2019	77,469	23,400	8,445	109,314
Refund liabilities as of December 31, 2019	6,585	186,787	2,731	196,103
For the year ended December 31, 2020				
Contract liabilities as of January 1, 2020	77,469	23,400	8,445	109,314
Refund liabilities as of January 1, 2020	6,585	186,787	2,731	196,103
Course fee collected[1]	1,408,181	2,042,634	253,748	3,704,563
Course fee refunded	(48,894)	(1,020,800)	(91,136)	(1,160,830)
Withdrawal refund	(48,894)	(303,720)	—	(352,614)
No-pass refund	—	(717,080)	—	(717,080)
Refund relating to online learning products	—	—	(91,136)	(91,136)
Revenue recognition[2]	(1,323,243)	(451,847)	(160,205)	(1,935,295)
Contract liabilities as of December 31, 2020	111,138	35,634	9,331	156,103
Refund liabilities as of December 31, 2020	8,960	744,540	4,252	757,752

	Non-contractual classes	Contractual classes	Online learning products	Total
		(RMB in thousands)		
For the year ended December 31, 2021				
Contract liabilities as of January 1, 2021	111,138	35,634	9,331	156,103
Refund liabilities as of January 1, 2021	8,960	744,540	4,252	757,752
Course fee collected[1]	2,006,516	3,565,526	227,059	5,799,101
Course fee refunded	(73,168)	(2,612,102)	(80,975)	(2,766,245)
Withdrawal refund	(73,168)	(527,165)	—	(600,333)
No-pass refund	—	(2,084,937)	—	(2,084,937)
Refund relating to online learning products	—	—	(80,975)	(80,975)
Revenue recognition[2]	(1,924,355)	(1,025,956)	(146,913)	(3,097,224)
Contract liabilities as of December 31, 2021	113,744	46,535	8,915	169,194
Refund liabilities as of December 31, 2021	15,347	661,107	3,839	680,293
For the six months ended June 30, 2022				
Contract liabilities as of January 1, 2022	113,744	46,535	8,915	169,194
Refund liabilities as of January 1, 2022	15,347	661,107	3,839	680,293
Course fee collected[1]	882,442	816,946	141,038	1,840,426
Course fee refunded	(36,954)	(522,339)	(50,921)	(610,214)
Withdrawal refund	(36,954)	(154,383)	—	(191,337)
No-pass refund	—	(367,956)	—	(367,956)
Refund relating to online learning products	—	—	(50,921)	(50,921)
Revenue recognition[2]	(825,490)	(323,795)	(87,794)	(1,237,079)
Contract liabilities as of June 30, 2022	124,069	23,749	9,800	157,618
Refund liabilities as of June 30, 2022	25,020	654,705	5,277	685,002

(1) Course fee collected represents net funds received for the sales of our courses and products, excluding primarily (i) value-added tax, (ii) repayments to students who purchased non-contractual classes yet determined not to attend the classes before the start date, and (iii) repayments for unapplied discount at purchase as requested by students.

(2) Includes revenue generated from sales of books of RMB37.6 million, RMB62.6 million, RMB104.5 million and RMB36.6 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively, for the books included in the course packages of both contractual and non-contractual classes.

The following table sets forth the refund rates for our contractual and non-contractual classes and the total refund rates by nature in terms of course fee collected, as calculated by dividing the amount of course fees refunded in a given period by the amount of course fees collected in the same period, during the Track Record Period.

	Non-contractual classes	Contractual classes	Total
For the year ended December 31, 2019			
Overall refund rate	1.5%	33.7%	15.9%
Withdrawal refund rate	1.5%	10.0%	4.7%
No-pass refund rate	—	23.7%	9.3%
For the year ended December 31, 2020			
Overall refund rate	3.5%	50.0%	31.3%
Withdrawal refund rate	3.5%	14.9%	9.5%
No-pass refund rate	—	35.1%	19.4%
For the year ended December 31, 2021			
Overall refund rate	3.6%	73.3%	47.7%
Withdrawal refund rate	3.6%	14.8%	10.4%
No-pass refund rate	—	58.5%	36.0%
For the six months ended June 30, 2022			
Overall refund rate	4.2%	63.9%	33.2%
Withdrawal refund rate	4.2%	18.9%	10.4%
No-pass refund rate	—	45.0%	20.0%

The mathematical annual or interim refund rates in each period could be affected by, among others, the timing of the relevant written and interview examinations and the corresponding timing of course purchase, course delivery and release of results, as well as changes in our service offering mix in each period. As a result, the above refund rates appeared volatile during the Track Record Period, primarily due to our rapid business growth with diversified course offerings and the timing of classes, examinations and results release in each period. Notwithstanding the perceived volatility, we believe the above refund rates were not contradictory to our estimated refund rates, as our actual refund obligation had not materially deviated from our estimated refund obligation during the Track Record Period. We have determined the estimated refund rates with reference to historical refund rates, taking into consideration the period of time spanning from the commencement of the orders to the release of examination results. We ascertained the historical refund rates by tracking the course fees received and refunded of historical orders on an ongoing basis. The timing of refunds for orders initiated in a given period may be carried over to the next calendar year. At the end of each year, we would revisit the actual refunds of previous orders and compare them with the estimated refund rates to identify any material deviation and determine whether the estimated refund rates for the coming year should be adjusted. As such, we believe that the fluctuation of the mathematical annual or interim refund rates in each period would not jeopardize the reasonableness of the estimated refund rates we adopted.

Specifically, the total overall refund rates increased from 15.9% in 2019 to 31.3% in 2020 and further to 47.7% in 2021, primarily due to the increase in the overall refund rates of contractual classes from 33.7% to 50.0% and further to 73.3% mainly driven by an increase in the no-pass refund rates, which was in turn because (1) the contractual classes we offered in 2019 were primarily relating to interview tests, the no-pass refund rates of which are relatively lower than those of the written tests due to the examination nature, while we launched written test contractual classes and fully refundable contractual classes in 2020 and 2021, and (2) a portion of the refunds for courses relating to the 2020 Regional Civil Servants Examinations were delayed and carried out in 2021 as the relevant examination cycles were postponed due to the COVID-19 outbreak. The total overall refund rates decreased to 33.2% in the six months ended June 30, 2022, primarily due to the decrease in the overall refund rate of contractual classes to 63.9% resulting from a decrease in the no-pass refund rate, which was in turn because the Regional Civil Servants Examinations originally scheduled in the first half of 2022 had been postponed to the second half, and accordingly the related actual no-pass refund requests had not been received by us in the six months ended June 30, 2022. According to the F&S Report, our overall refund rates were lower than our major market peer whose refund rates are publicly available.

The no-pass refund rates for our contractual classes increased from 23.7% in 2019 to 35.1% in 2020 and further to 58.5% in 2021, and subsequently decreased to 45.0% in the six months ended June 30, 2022, primarily for the reasons as discussed above.

During the Track Record Period, the withdrawal refund rates for our contractual classes were generally higher than that for our non-contractual classes, as the former were more expensive and, therefore, students were more likely to change their minds and drop classes after the purchase. The following table sets forth the withdrawal refund rates for our contractual and non-contractual classes by course type for the periods indicated.

	Year ended December 31,						Six months ended June 30,	
	2019		2020		2021		2022	
	Non-contractual classes	Contractual classes	Non-contractual classes	Contractual classes	Non-contractual classes	Contractual classes	Non-contractual classes	Contractual classes
Online tutoring	1.1%	10.3%	2.6%	28.2%	2.6%	14.2%	1.5%	11.4%
Classroom-based tutoring	2.8%	9.8%	4.8%	13.5%	5.4%	14.9%	10.7%	22.0%
Total	1.5%	10.0%	3.5%	14.9%	3.6%	14.8%	4.2%	18.9%

The withdrawal refund rates for our contractual classes increased from 10.0% in 2019 to 14.9% in 2020, primarily because we mainly provided contractual classes for interview tests on a limited scale in 2019. The withdrawal refund rates for our contractual classes increased from 14.8% in 2021 to 18.9% in the six months ended June 30, 2022, primarily because 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. The withdrawal refund rates for our non-contractual classes increased from 1.5% in 2019 to 3.5% in 2020, primarily because we launched more relatively higher-priced courses, such as online premium courses, and remained relatively stable at 3.6% in 2021. The withdrawal refund rates for our non-contractual classes reached 4.2% in the six months ended June 30, 2022, primarily due to the regional resurgence of the COVID-19 pandemic in the first half of 2022.

As for online tutoring courses, the withdrawal refund rates for non-contractual classes remained relatively stable during the Track Record Period. The withdrawal refund rates for online contractual classes increased from 10.3% in 2019 to 28.2% in 2020, primarily because the COVID-19 outbreak adversely affected the ability and willingness of students to take the relevant examinations, leading to an increasing number of withdrawals. After that, the withdrawal refund rates retreated and remained at a relatively stable level in 2021 and the six months ended June 30, 2022. As for classroom-based tutoring courses, the withdrawal refund rates for both non-contractual classes and contractual classes increased during the Track Record Period, primarily due to the impact of the COVID-19 pandemic, in particular the regional resurgence in the first half of 2022.

In addition, the refund rates for contractual classes in terms of paid enrollments, as calculated by dividing the number of paid enrollments for contractual classes with actual subsequent refunds in a given period by the number of paid enrollment for contractual classes in the same period, increased from 32.3% in 2019 to 43.6% in 2020 and further to 61.6% in 2021 for similar reasons as discussed above. The refund rates for contractual classes in terms of paid enrollments remained relatively stable at 52.7% and 53.6% in the six months ended June 30, 2021 and 2022, respectively. The refund rates for non-contractual classes in terms of paid enrollments, as calculated in the same way, were 1.3%, 2.0%, 2.9%, 3.2% and 5.0% in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

Current Income Tax Liabilities

Our current income tax liabilities primarily consisted of income tax payable. Our current income tax liabilities continuously increased from RMB19.3 million as of December 31, 2019 to RMB26.8 million as of June 30, 2022, primarily due to an increase in the profit generated from our sales of books during the Track Record Period.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Working Capital

Our primary use of cash is to fund the daily operations of our business. During the Track Record Period, we financed our capital expenditures and working capital requirements primarily with cash generated from our operating and financing activities. Going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, **[REDACTED]** from the **[REDACTED]** and other funds raised from the capital markets from time to time. Any significant decrease in the demand or market prices of our tutoring services, or a significant decrease in the availability of bank loans or other financing options may adversely impact our liquidity. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had cash and cash equivalents of RMB161.8 million, RMB332.7 million, RMB1,159.9 million and RMB1,253.5 million, respectively.

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)	
Operating cash flows before movements in working capital	229,572	(307,153)	(634,914)	(516,587)	233,492
Changes in working capital	219,042	765,703	(247,732)	244,805	(170,001)
Cash generated from/(used in) operations	448,614	458,550	(882,646)	(271,782)	63,491
Interest paid	(1,418)	(7,236)	(20,003)	(11,217)	(7,744)
Interest received	870	1,074	2,229	1,317	2,508
Income tax (paid)/received	(13,967)	6,737	(14,709)	(4,845)	(878)
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

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB in thousands)				
				(Unaudited)	
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	161,783	332,650	1,159,867	1,197,757	1,253,529

Net cash generated from/(used in) operating activities

Our cash generated from operating activities was primarily related to course fees, which were typically paid in advance prior to the beginning of relevant courses, and to a lesser extent, the sales of in-house developed textbooks and learning materials. Our cash used in operating activities was primarily for employee benefit expenses associated with teaching staff and other costs, administrative expenses, selling and marketing expenses and research and development expenses.

In the six months ended June 30, 2022, our net cash generated from operating activities was RMB57.4 million, primarily attributable to our loss before tax of RMB361.2 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 RMB383.8 million, share-based payments of RMB83.2 million, and depreciation of right-of-use assets of RMB68.0 million, and (2) changes in working capital that negatively affected the cash flow, primarily including a decrease in trade and other payables of RMB145.6 million and an increase in contract assets of RMB39.9 million.

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.

In 2020, our net cash generated from operating activities was RMB459.1 million, primarily attributable to our loss before tax of RMB517.2 million, adjusted for (1) certain non-cash and non-operating items, primarily including share-based payments of RMB121.6 million and depreciation of right-of-use assets of RMB72.4 million, and (2) changes in working capital that positively affected the cash flow, primarily including an increase in contract liabilities and refund liabilities of RMB608.4 million and an increase in trade and other payables of RMB236.1 million, partially offset by (3) changes in working capital that negatively affected the cash flow, primarily including an increase in trade receivables and prepayment and other receivables of RMB57.6 million.

In 2019, our net cash generated from operating activities was RMB434.1 million, primarily attributable to our profit before tax of RMB184.0 million, adjusted for (1) certain non-cash and non-operating items, primarily including depreciation of right-of-use assets of RMB21.6 million and share-based payments of RMB21.2 million, and (2) changes in working capital that positively affected the cash flow, primarily including an increase in contract liabilities and refund liabilities of RMB181.1 million, and a decrease in inventories of RMB17.6 million.

Net cash (used in)/generated from investing activities

Our cash used in investing activities was primarily related to purchase of wealth management products and purchase of property, plant and equipment.

In the six months ended June 30, 2022, our net cash generated from investing activities was RMB25.4 million, primarily attributable to redemption of financial assets at fair value through profit or loss of RMB1,505.2 million, partially offset by purchases of financial assets at fair value through profit or loss of RMB1,490.0 million.

In 2021, our net cash generated from investing activities was RMB156.5 million, primarily attributable to the redemption of financial assets at fair value through profit or loss of RMB4,052.3 million, partially offset by purchases of financial assets at fair value through profit or loss of RMB3,691.3 million and purchase of property, plant and equipment of RMB219.0 million.

In 2020, our net cash used in investing activities was RMB188.0 million, primarily attributable to purchases of financial assets at fair value through profit or loss of RMB1,072.0 million and purchase of property, plant and equipment of RMB135.6 million, partially offset by the redemption of financial assets at fair value through profit or loss of RMB1,010.3 million.

In 2019, our net cash used in investing activities was RMB288.9 million, primarily attributable to purchases of financial assets at fair value through profit or loss of RMB745.6 million, partially offset by the redemption of financial assets at fair value through profit or loss of RMB470.3 million.

Net cash (used in)/generated from financing activities

Our cash used in financing activities was primarily related to lease payments, payment for the redemption of certain number of preferred shares and repayments of borrowing from the related parties. Our cash generated from financing activities was primarily related to proceeds from the equity financing.

In the six months ended June 30, 2022, our net cash used in financing activities was RMB49.9 million, primarily attributable to payments for long-term leases of RMB49.0 million.

In 2021, our net cash generated from financing activities was RMB1,612.4 million, primarily attributable to proceeds of RMB2,525.4 million from our equity financing, partially offset by payment for the redemption of certain number of preferred shares of RMB754.3 million, and payments for long-term leases of RMB157.9 million.

In 2020, our net cash used in financing activities was RMB100.3 million, primarily attributable to payments for long-term leases of RMB100.3 million.

In 2019, our net cash used in financing activities was RMB90.7 million, primarily attributable to repayments of borrowing from the related parties of RMB68.6 million and payments for long-term leases of RMB22.2 million.

Working Capital

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

	As of December 31,			As of June 30,	As of October 31,
	2019	2020	2021	2022	2022
			(RMB in thousands)		
					(Unaudited)
CURRENT ASSETS					
Inventories	52,636	73,849	87,197	88,732	88,254
Trade receivables	4,740	7,522	5,656	18,205	28,637
Contract assets	—	—	20,528	60,160	7,858
Prepayment and other receivables	45,493	77,147	97,127	75,885	69,614
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	1,162,531
Total current assets	**544,833**	**842,807**	**1,380,514**	**1,496,511**	**1,356,894**
CURRENT LIABILITIES					
Trade and other payables	76,453	312,528	313,360	167,808	150,666
Contract liabilities	109,314	156,103	169,194	157,618	137,381
Refund liabilities	196,103	757,752	680,293	685,002	320,723
Current income tax liabilities	19,333	20,439	22,164	26,782	29,356
Lease liabilities	26,456	128,752	167,784	106,778	94,043
Deferred tax liabilities	27	—	—	—	—
Financial liabilities at fair value through profit or loss	—	—	—	—	24,860
Total current liabilities	**427,686**	**1,375,574**	**1,352,795**	**1,143,988**	**757,029**
NET CURRENT ASSETS/ (LIABILITIES)	**117,147**	**(532,767)**	**27,719**	**352,523**	**599,864**

Our net current assets increased from RMB352.5 million as of June 30, 2022 to RMB599.9 million as of October 31, 2022, primarily due to a decrease in refund liabilities of RMB364.3 million as we had received and settled a substantial portion of the no-pass refund requests relating to the Regional Civil Servants Examinations following the examination results release.

Our net current assets increased from RMB27.7 million as of December 31, 2021 to RMB352.5 million as of June 30, 2022, primarily due to an increase in cash and cash equivalents of RMB93.7 million as a result of our efforts in managing our growth and improving our profitability, a decrease in lease liabilities of RMB61.0 million in connection with the adjustment of our offline coverage, and an increase in contract assets of RMB39.6 million.

We had net current assets of RMB27.7 million as of December 31, 2021, compared to net current liabilities of RMB532.8 million as of December 31, 2020, primarily due to an increase in cash and cash equivalents of RMB827.2 million resulting from proceeds from the equity financing, which was completed in June 2021, and redemption of certain wealth management products in late 2021.

We had net current liabilities of RMB532.8 million as of December 31, 2020, compared to net current asset of RMB117.1 million as of December 31, 2019, primarily due to an increase in refund liabilities of RMB561.6 million as a result of increased paid enrollments of our contractual classes, an increase in trade and other payables of RMB236.1 million attributable to an increase in employee benefits payables along with the increased number of our employees, and an increase in lease liabilities of RMB102.3 million, partially offset by an increase in cash and cash equivalents of RMB170.9 million.

We intend to continue to finance our working capital with cash flows generated from our operating activities, **[REDACTED]** from the **[REDACTED]** and other funds raised from the capital markets from time to time. We will closely monitor the level of our working capital, and diligently review future cash flow requirements and adjust our operation and expansion plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations.

Taking into consideration of financial resources presently available to us, our Directors are of the view that our available cash and cash equivalents, wealth management products, anticipated cash flows from operations, and **[REDACTED]** from the **[REDACTED]** will be sufficient to meet our present and anticipated cash requirements for the next 12 months from the date of this document. Based on review of financial and other due diligence documents, discussion with and confirmation from our Directors, the Joint Sponsors concur with our Directors' view.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital Expenditures

Our capital expenditures primarily consisted of purchases of property, plant and equipment, and amounted to RMB13.1 million, RMB135.6 million, RMB219.0 million and RMB20.5 million, respectively, in 2019, 2020, 2021 and the six months ended June 30, 2022. We funded our capital expenditure requirements during the Track Record Period primarily through cash generated from our operating activities.

Capital Commitments

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we did not have any significant capital commitments.

INDEBTEDNESS

Our indebtedness during the Track Record Period primarily consisted of lease liabilities. The following table sets forth our lease liabilities as of the dates indicated.

	As of December 31,			As of June 30,	As of October 31,
	2019	2020	2021	2022	2022
	(RMB in thousands)				
					(Unaudited)
Lease liabilities, current	26,456	128,752	167,784	106,778	94,043
Lease liabilities, non-current	40,577	178,563	267,904	172,296	118,951
Total	**67,033**	**307,315**	**435,688**	**279,074**	**212,994**

In addition, we had unutilized banking facilities of RMB100 million as of October 31, 2022.

Save as disclosed above, as of October 31, 2022, being the latest practicable date for the purpose of the indebtedness statement, we had no bank loans or other borrowings, or any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases, guarantees or other material contingent liabilities. Our Directors confirm that there has not been any material change in our indebtedness since October 31, 2022.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any material contingent liability, guarantee or any litigation or claim of material importance, pending or threatened against any member of our Group.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

[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$**[REDACTED]**, being the mid-point of the **[REDACTED]** between HK$**[REDACTED]** and HK$**[REDACTED]**, and assuming that the **[REDACTED]** is not exercised), which consist of (1) **[REDACTED]**-related expenses (including but not limited to **[REDACTED]** and fees) of approximately RMB**[REDACTED]** million, and (2) non-**[REDACTED]** related expenses of approximately RMB**[REDACTED]** million, including (i) fees and expenses of legal advisors and accountants of approximately RMB**[REDACTED]** million and (ii) other fees and expenses of approximately RMB**[REDACTED]** million. 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 directly attributable to the issuance of Shares will be deducted from equity 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 equity. 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.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time during our ordinary course of business and on terms comparable to the terms of transactions with other entities that are not related parties. During the Track Record Period, we entered into a number of related party transactions. As of June 30, 2022, we had no non-trade balances with related parties. See Note 33 to the Accountant's Report in Appendix I to this document.

Our Directors are of the view that each of the related party transactions during the Track Record Period was conducted in the ordinary course of business on an arm's length basis with reference to normal commercial terms, and would not distort our track record results or make our historical results not reflective of our future performance.

KEY FINANCIAL RATIOS

	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(1)	46.2%	23.0%	24.5%	47.5%
Net profit/(loss) margin(2)	13.3%	(22.7%)	(59.7%)	(27.0%)
Adjusted net profit/(loss) margin (non-IFRS measure)(3)	15.1%	(17.0%)	(24.0%)	6.6%
Liquidity ratios				
Current ratio(4)	1.3	0.6	1.0	1.3
Quick ratio(5)	1.2	0.6	1.0	1.2

(1) The calculation of gross profit margin is based on gross profit divided by revenue for the respective year/period and multiplied by 100.0%.

(2) The calculation of net profit/loss margin is based on profit/loss for the year/period divided by revenue for the respective year and multiplied by 100.0%.

(3) The calculation of adjusted net profit/loss margin (non-IFRS measure) is based on adjusted profit/loss divided by revenue for the respective year/period and multiplied by 100.0%.

(4) The calculation of current ratio is based on current assets divided by current liabilities as of year/period end.

(5) The calculation of quick ratio is based on current assets less inventories divided by current liabilities as of year/period end.

Analysis of Key Financial Ratios

Gross profit margin, net profit/loss margin, and adjusted net profit/loss margin (non-IFRS measure)

See "— Period to Period Comparison of Results of Operations" for a discussion of the factors affecting our gross profit margin, net profit/loss margin and adjusted net profit/loss margin (non-IFRS measure) during the Track Record Period.

Current ratio and quick ratio

Our current ratio decreased from 1.3 as of December 31, 2019 to 0.6 as of December 31, 2020, primarily due to an increase in refund liabilities as a result of increased paid enrollments of our contractual classes as we have launched an increasing number of contractual classes since 2020, and an increase in trade and other payables attributable to an increase in employee benefits payables along with the increased number of our employees. Our current ratio increased to 1.0 as of December 31, 2021, primarily due to an increase in cash and cash equivalents primarily attributable to proceeds from the equity financing, which was completed in June 2021, and redemption of certain wealth management products in late 2021. Our current ratio increased to 1.3 as of June 30, 2022, primarily due to an increase in cash and cash equivalents as a result of our efforts in managing our growth and improving our profitability, a decrease in lease liabilities in connection with the adjustment of our offline coverage, and an increase in contract assets.

Our quick ratio decreased from 1.2 as of December 31, 2019 to 0.6 as of December 31, 2020, primarily due to increases in refund liabilities and trade and other payables. Our quick ratio increased to 1.0 as of December 31, 2021, primarily due to an increase in cash and cash equivalents primarily attributable to proceeds from the equity financing, which was completed in June 2021, and redemption of certain wealth management products in late 2021. Our quick ratio increased to 1.2 as of June 30, 2022, primarily due to an increase in cash and cash equivalents as a result of our efforts in managing our growth and improving our profitability, a decrease in lease liabilities in connection with the adjustment of our offline coverage, and an increase in contract assets.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Our principal financial instruments include cash and cash equivalents and financial assets at fair value through profit or loss, which primarily consisted of wealth management products. We have various other financial assets and liabilities such as trade receivables, prepayment and other receivables and trade and other payables. We are exposed to a variety of financial risks, including market risk, credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Our senior management is responsible for our risk management. We regularly monitor our risk exposure and currently have not used any derivative financial instruments to hedge any of these financial risks.

Our Directors reviewed and agreed policies for managing each of these risks as summarized below. For details of our financial risk management, see Note 3 to the Accountant's Report in Appendix I to this document.

Market Risk

Foreign exchange risk

The functional currency of our subsidiaries in China is Renminbi, while the functional currency of our Company and subsidiaries outside China is US dollars. Foreign exchange risk arises from the fluctuation in exchange where our monetary assets are denominated in currency other than functional currency. We have continued to closely track and manage our exposure to fluctuations in foreign exchange rates for the majority of our Group's deposits in foreign currencies.

Interest rate risk

Our income and operating cash flows are substantially independent from changes in market interest rates.

Price risk

We are exposed to price risk in respect of financial assets at fair value through profit or loss held by us, which are carried at fair value with changes in the fair value recognized in profit or loss. To manage our price risk arising from investments, we diversify our portfolio in accordance with our internal limits. Each investment is managed by our senior management on a case-by-case basis.

For more details about our market risk, see Note 3.1(a) to the Accountant's Report in Appendix I to this document.

Credit Risk

Our credit risk is managed on a group basis. The credit risk of our financial assets, which mainly comprise cash and cash equivalents, contract assets, trade receivables, other receivables and lease receivables, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

We assess the credit quality of the counterparties by taking into account their financial position, credit history, forward-looking information and other factors. Our management also monitors the recoverability of receivables and follow up the disputes or amounts overdue, if any. In addition, we regularly review the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

For more details about our credit risk, see Note 3.1(b) to the Accountant's Report in Appendix I to this document.

Liquidity Risk

To manage liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operation and mitigate the effects of fluctuations in cash flows.

For more details about our liquidity risk, see Note 3.1(c) to the Accountant's Report in Appendix I to this document.

DIVIDEND

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.

As advised by our Cayman legal advisors, under Cayman Islands law, a position of accumulated losses and net liabilities does not necessarily restrict our Company from declaring and paying dividends to our Shareholders out of either our profit or our share premium account, provided this would not result in our Company being unable to pay its debts as they fall due in the ordinary course of business.

DISTRIBUTABLE RESERVES

As of June 30, 2022, we had no reserve available for distribution to the Shareholders.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

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. The PRC government has imposed quarantine measures across the country since late January 2020. Local governments have also imposed temporary restrictions or bans on passenger traffic to control the spread of the COVID-19. On January 30, 2020, the World Health Organization declared the outbreak of COVID-19 a Public Health Emergency of International Concern (PHEIC). 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 PRC government has gradually lifted domestic travel restrictions and other quarantine measures, and economic activities have begun to recover and return to normal nationwide during 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.

Impact on our Business and Financial Conditions

Since the outbreak of COVID-19, a series of precautionary and control measures have been implemented worldwide to contain the virus. 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 and provincial recruitment and qualification examinations in China were postponed as a result of the COVID-19 outbreak, 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, in 2022, several recruitment and qualification examinations had been postponed for months compared to their original schedules. 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, as a result of the regional resurgence of COVID-19 cases in China, certain municipal level teacher qualification and recruitment examinations originally scheduled in the first half of 2022 had been postponed to the second half, and certain municipal level teacher qualification examinations originally scheduled in October 2022 had tentatively been postponed to 2023. The 2023 National Civil Servants Examination and the 2023 Regional Civil Servants Examinations for Beijing City and Shandong Province originally scheduled in December 2022 were also postponed, with the new examination dates to be determined. 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. Moreover, while we temporarily suspended our classroom-based tutoring courses resulting from the restrictions on offline activities during the outbreak, we continued to incur relevant employee benefit expenses and fixed cost and expenses relating to leased properties on which we operate our classroom-based tutoring services, which adversely affected our results of operations and profitability. Nevertheless, we were granted temporary deduction in the contribution of social insurance premiums for our employees according to relevant government relief policies during the COVID-19 outbreak. We also enjoyed rent concessions for one branch office. In addition, given the flexible model of our offline business, which is generally based on leased properties, we have from time to time adjusted the scale and location for our classroom facilities to mitigate the impact of COVID-19 outbreak on our offline operations.

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. The Chinese government has gradually lifted domestic travel restrictions and other quarantine measures, and economic activities have generally recovered and returned to normal nationwide. Our offline operations have been gradually recovering as economic activities return to normal nationwide, despite the adverse impact on our offline operations in a few localities by the regional resurgence of the pandemic. 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 outbreak. 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 our online products and services, which we believe has, to a certain extent, mitigated 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. Our Directors confirmed that, as of the Latest Practicable Date, we had not incurred any major capital expenditure due to the negative impact of COVID-19 outbreak.

Impact on Our Operations

We began to provide classroom-based tutoring courses on a trial basis in April 2017. 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. We strategically launched our offline course offerings on a large-scale basis in May 2020, considering that by that time (1) we had established our prominent online presence with a massive user base, and had identified, after careful evaluation of market demand and competitive landscape, significant growth opportunities from the potential synergy of a OMO business model, and (2) the Chinese government had gradually lifted lockdown and quarantine measures with the spread of COVID-19 being effectively contained then, which led to a revival of offline tutoring activities. In addition to the nationwide suspension from January 2020 to May 2020, 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 lasted from several days to two to three months depending on the severity of the outbreak and local governmental policies. For example, our classroom-based tutoring courses were suspended across Jiangsu Province from July 2021 to September 2021, and across Shaanxi Province from December 2021 to January 2022. In addition, our classroom-based tutoring courses were suspended for approximately two weeks in certain cities in Yunnan Province during December 2021 and January 2022. Our business operations have not been materially and adversely affected by the resurgence of the pandemic in Shanghai City in 2022 as we have little offline tutoring service in operation there.

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	3
30 to 60 days	55	17
60 to 90 days	5	44
Over 90 days	—	5
Total	**90**	**69**

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

The following table sets forth the number of cities where we suspended our classroom-based tutoring services and the average days of suspension of such affected cities by region in 2021 and 2022, respectively.

	2021		2022(1)	
	Number of cities affected	Average days of suspension	Number of cities affected	Average days of suspension
Eastern China region	8	33	21	70
Northern China region	19	32	7	82
Southern China region	5	30	5	45
Northwestern China region	24	22	14	54
Northeastern China region	27	40	17	79
Southwestern China region	7	32	5	38

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

We generally provided online tutoring courses as a substitute. 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. However, some students may withdraw from such courses instead of transferring to our online courses. As a result, the paid enrollments of our classroom-based tutoring courses grew slower than expected. 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

In response to the COVID-19 pandemic, we have implemented an interim policy requiring our management members and employees to declare their recent travel history. Returnees from recent travels are required to work from home and should only return to office upon receiving further notice from us. 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 regional resurgence period in 2022, which may lead to changes to or suspension of certain employees' daily work. However, we believe that such flexible work arrangement would not materially disrupt our business.

Impact on Our Supply Chain

Our suppliers primarily include suppliers for paper, third-party vendors for human resource services, printing services, logistics services, information technology services, marketing services and hotel services, as well as lessors of the premises we occupy for our classroom-based tutoring. As of the Latest Practicable Date, we had not experienced any major supply disruption.

Our Precautionary Measures and Social Responsibility

We took various precautionary measures to maintain a hygienic working environment and ensure the safety for our employees and students, such as adopting COVID-19 disinfecting techniques in our offline offices and classroom facilities, distributing masks to employees, and implementing internal reporting system. In addition, we are committed to fulfilling our corporate social responsibility and creating stronger communities amid the COVID-19 pandemic, including making donations.

However, we cannot be entirely certain as to when the COVID-19 pandemic will be fully contained, and its impact will be completely alleviated. Any prolonged outbreak may adversely affect our business and financial performance. There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the severe global situation and the recent regional resurgence of COVID-19 cases in China. Should there be an escalation of the spread, China may again take strict emergency measures in response, including travel restrictions, mandatory cessations of offline business operations, mandatory quarantines, work-from-home and other alternative working arrangements, and limitations on social and public gatherings and lockdowns of cities or regions, which may impact our business. 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 confirm that, up to the date of this document, there has 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, and there is no event since June 30, 2022 which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report in Appendix I to this document.

UNAUDITED [REDACTED] ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited **[REDACTED]** adjusted consolidated net tangible assets have been prepared in accordance with Rule 4.29 of the Listing Rules and are set out here to illustrate the effect of the **[REDACTED]** on our consolidated net tangible liabilities as of June 30, 2022 as if it had taken place on that date. No adjustments have been made to the unaudited **[REDACTED]** adjusted consolidated net tangible assets to reflect any trading results or other transactions we entered into after June 30, 2022.

Our unaudited **[REDACTED]** adjusted consolidated net tangible assets have been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets had the **[REDACTED]** been completed as of June 30, 2022 or any future date.

	Audited consolidated net tangible liabilities attributable to the owners of our Company as of June 30, 2022(1)	Estimated [REDACTED] from the [REDACTED](2)	Estimated impact related to the changes of terms of convertible redeemable preferred shares upon the [REDACTED](3)	Unaudited [REDACTED] adjusted consolidated net tangible assets attributable to the owners of our Company	Unaudited [REDACTED] adjusted consolidated net tangible assets attributable to owners of our Company per Share	
		(RMB in thousands)			RMB(4)	HK$(5)
Based on an **[REDACTED]** of HK$**[REDACTED]** per Share	(8,939,323)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Based on an **[REDACTED]** of HK$**[REDACTED]** per Share	(8,939,323)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

(1) Our audited consolidated net tangible liabilities attributable to the owners of our Company as of June 30, 2022 are extracted from the Accountant's Report in Appendix I to this document, which is based on the audited consolidated net liabilities attributable to the owners of our Company as of June 30, 2022 of RMB8,938.5 million, with an adjustment for intangible assets of RMB0.9 million as of June 30, 2022.

(2) The estimated **[REDACTED]** from the **[REDACTED]** is based on the **[REDACTED]** of HK$**[REDACTED]** and HK$**[REDACTED]** per Share, being the lower end and higher end of the **[REDACTED]**, respectively, after deduction of the estimated **[REDACTED]** fees and other related expenses payable by our Company (excluding RMB32.9 million which had been charged to the consolidated statements of comprehensive income up to June 30, 2022) and does not take into account of any Shares which may be issued upon the exercise of the **[REDACTED]**.

(3) Upon the **[REDACTED]** and the completion of the **[REDACTED]**, all the preferred shares will be automatically converted into ordinary shares. These preferred shares will be re-designated from liabilities to equity. Accordingly, for the purpose of the unaudited **[REDACTED]** financial information, the unaudited **[REDACTED]** adjusted consolidated net tangible assets attributable to the owners of our Company will increase by RMB**[REDACTED]** million, being the carrying amounts of the preferred shares as of June 30, 2022.

(4) The unaudited **[REDACTED]** adjusted consolidated net tangible assets per Share are arrived after adjustments referred to in note (2) and on the basis that **[REDACTED]** Shares were in issue immediately upon completion of the **[REDACTED]** (without taking into account of any Shares which may be allotted and issued upon exercise of the **[REDACTED]**), which is assumed to be on June 30, 2022 for the purpose of the **[REDACTED]** financial information.

(5) The unaudited **[REDACTED]** adjusted consolidated net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of HK$1.00 to RMB0.9069 prevailing on December 2, 2022. No representation is made that RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(6) No adjustments have been made to the unaudited **[REDACTED]** adjusted consolidated net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to June 30, 2022.