粉筆有限公司
Fenbi Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2469

2022 Annual Report

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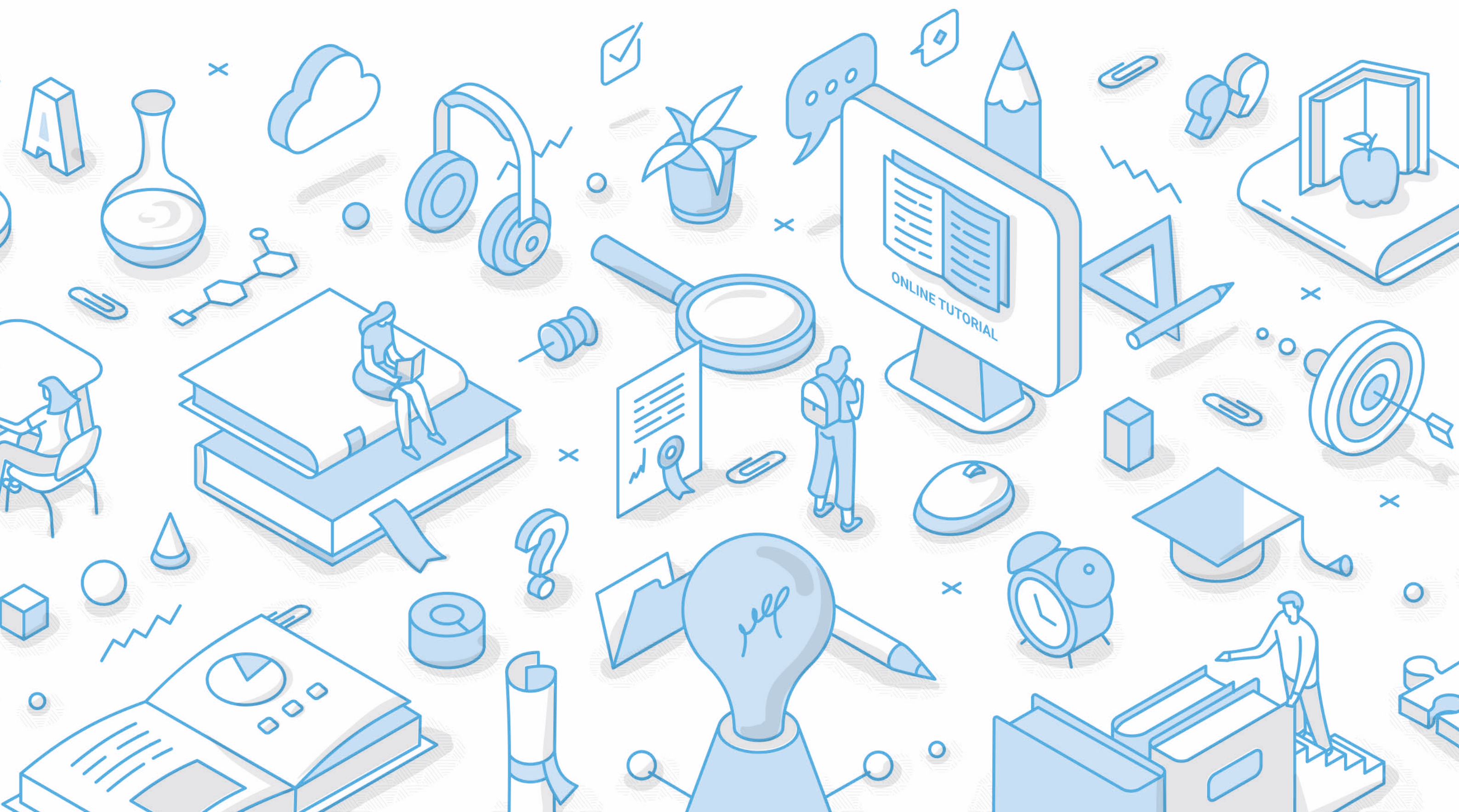


Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. ZHANG Xiaolong *(Chairman and Chief Executive Officer)*
Mr. WEI Liang

Non-executive Directors

Mr. LI Yong
Mr. LI Xin
Mr. LI Zhaohui *(resigned on March 8, 2023)*

Independent Non-executive Directors

Mr. QIU Dongxiao Larry
Mr. YUEN Kai Yiu Kelvin
Ms. YUAN Jia

AUDIT COMMITTEE

Mr. YUEN Kai Yiu Kelvin *(Chairman)*
Mr. QIU Dongxiao Larry
Ms. YUAN Jia

REMUNERATION COMMITTEE

Mr. QIU Dongxiao Larry *(Chairman)*
Mr. ZHANG Xiaolong
Mr. WEI Liang
Mr. YUEN Kai Yiu Kelvin
Ms. YUAN Jia

NOMINATION COMMITTEE

Mr. ZHANG Xiaolong *(Chairman)*
Mr. WEI Liang
Mr. QIU Dongxiao Larry
Mr. YUEN Kai Yiu Kelvin
Ms. YUAN Jia

JOINT COMPANY SECRETARIES

Ms. WANG Tao
Mr. LEE Chung Shing

AUTHORIZED REPRESENTATIVES

Mr. WEI Liang
Ms. WANG Tao

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and
Registered Public Interest Entity Auditor
22/F, Prince's Building, Central
Hong Kong

COMPLIANCE ADVISOR

Maxa Capital Limited
Unit 1908 Harbour Center
25 Harbour Road, Wanchai
Hong Kong

REGISTERED OFFICE

190 Elgin Avenue
George Town
Grand Cayman KY1-9008
Cayman Islands

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Walkers Corporate Limited
190 Elgin Avenue
George Town
Grand Cayman KY1-9008
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong

CORPORATE HEADQUARTERS

1–6/F, Building 103, No. 10 Courtyard
Jiuxianqiao North Road
Chaoyang District
Beijing, PRC

PRINCIPAL BANKS

China Merchants Bank, Beijing Branch
China CITIC Bank, Beijing Branch
Shanghai Pudong Development Bank, Beijing Branch

HONG KONG LEGAL ADVISER

Wilson Sonsini Goodrich & Rosati
Suite 1509, 15/F, Jardine House
1 Connaught Place, Central
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

46/F, Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong

WEBSITE

www.fenbi.com

STOCK CODE

2469

Dear shareholders,

2022 was an arduous year, and we made certain adjustments of the business based on market conditions, allowing the Company to return to the track of stable development.

In the second half of 2020, when the domestic epidemic was under control, the Company proactively expanded its offline hub layout to seize the offline and low-tier markets. However, due to the recurrence of COVID-19 in 2021 and intensifying competition in the offline market, the Company decisively adjusted the business and tactically scaled down its offline layout. After the adjustments in 2021, the Company withstood the repeated and multiple outbreaks of COVID-19 in 2022 and achieved a turnaround from losses to profits, despite the common and significant losses in the industry.

The achievement of the turnaround was not solely due to the scale-down of the offline layout. The Company also adjusted its product offering by canceling part of its contractual courses, which mitigated financial risks while increasing the proportion of revenue immediately recognizable and shortening the overall revenue recognition cycle. In addition, the turnaround was largely attributable to the Company's long-term perseverance in its business strategies and values.

Firstly, the Company highly values technological strength which traces back to its establishment. The Company has always prioritized technology as a means of improving operational efficiency, and has had a long-term plan for a steady flow of technological investment. As early as 2015, when the Company was newly established with few personnel at a small revenue scale, it planned to allocate a portion of its funds to long-term technological investment. Taking the example of the intelligent article recognition and essay grading system of Fenbi, since 2015, the Company has continuously invested for five years and spent hundreds of millions of resources without any immediate returns, and finally achieved a significant amount of revenue in 2020, while greatly improving the efficiency of user learning and teaching. This system also has accumulated a large amount of data and retained top-tier technological talent for the Company.

Secondly, the Company has always adhered to a product-centric business philosophy in the long run. As a non-formal vocational education and training enterprise, the Company places great importance on the quality and development of its teaching staff. However, the Company does not highlight any individual instructor, but instead emphasizes the overall development of the teaching staff. While the Company has superior instructors, it does not have any star instructors. This is not only based on the considerations of business strategy and business safety, but also based on the user needs. Listening to instructors is just one of the basic steps in learning any knowledge or skill. To go from not knowing to knowing, it requires multiple steps such as listening, practicing, testing and correcting. Effective learning can only be achieved when each step is done well. As a result, lecturing of instructors is just one of the aspects in the learning value chain, and it is neither the entirety nor the majority. The Company has carefully designed every aspect in the back-end of its products, with practicing mainly completed through supervision services while testing and correction mainly realized through technological and operational measures. This systematic product design allows users to access the best instructors, the supervision services of most patience, and the most effective assessments, fully realizing a close loop of learning.

Chairman's Statement

Thirdly, we adhere to a user-oriented business philosophy. This statement may seem easy to say and sound empty, but it is actually challenging to implement. Since the establishment of the Company, we have persisted on a simple business ethics — users pay us for good teaching services, and we allocate our budget to serve users practically rather than buying traffic for short-term profit. In the early days, Fenbi did not raise any external capital, and once we started generating profits, we invested the vast majority of our resources into teaching research and product development. This effortful approach did not lead to explosive growth in the early stages. However, we stand firm in the faith that with persistent refinement of our tutoring services and ongoing optimization of efficiency and technological advancement, as well as non-stopping investment of our time and efforts, ceteris paribus, our excellent quality of service will be perceptible by the users in the long run. While this logic may not apply to all fields and industries, it is suitable for the non-formal vocational education and training industry, which requires differentiated and customized services. By persevering, we can balance efficiency, effectiveness and good quality. Our persistent efforts over the years have paid off. Although the business growth is slow in the early stages, we attracted almost entirely natural traffic, and most of our users were acquired by word-of-mouth. This not only saved costs and reduced traffic anxiety but also allowed our team to be dedicated to user experience, rather than being distracted by revenue and performance.

My personal motto is "Do good deeds, come what may". I have also brought this idea into our business. Instead of taking a ruthless approach, we run our business with compassion and humanity. My team and I care more about healthy, sustainable and ethically sound business operations than short-term business performance. Compared to many other companies, our team may appear more reserved or "reticent". This may seem out of place in business environment nowadays, but it is our style and a concept that we have adhered to in the long run.

2023 marks a year full of hope and opportunities, as the COVID-19 pandemic comes to an end and the society and economy return to normalcy. However, the three-year pandemic has also had an impact on people's income and consumer confidence, which still needs to be further improved. As we face significant challenges and uncertainties in our operations, we will adhere to our fundamental business philosophy and mindset of "user-oriented and technology-driven", striving to create more value for our shareholders and society as a whole.

ZHANG Xiaolong
Chairman

Hong Kong
March 28, 2023

	2019	2020	2021	**2022**
Operating Results				
Employee	1,592	12,803	8,964	**7,440**
Full-time instructor	716	6,552	4,520	**3,941**
Other staff	876	6,251	4,444	**3,499**
Operational hub	31	214	363	**198**
Monthly active user	2,924,180	4,667,527	6,504,300	**7,945,237**

	For the Year Ended December 31/ As of December 31,			
	2019	2020	2021	**2022**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Consolidated Statement of Profit and Loss (Selected Items)				
Revenue	1,160,315	2,132,074	3,428,559	**2,810,429**
Loss before income tax	184,036	(517,167)	(2,057,929)	**(2,045,526)**
Loss for the year	154,070	(484,472)	(2,045,971)	**(2,087,347)**
Adjusted net profit/(loss) (non-IFRS measures)*	175,241	(362,835)	(822,357)	**191,494**
Consolidated Statement of Financial Position (Selected Items)				
Total assets	645,894	1,368,933	2,142,223	**1,633,516**
Total liabilities	468,263	7,945,093	10,376,863	**12,496,441**
Equity/(deficit) attributable to owners of the Company	177,631	(6,576,160)	(8,234,640)	**(10,862,925)**

Note:

* See "Management Discussion and Analysis — non-IFRS measures" in this annual report.

Management Discussion and Analysis

BUSINESS OVERVIEW

We are a non-formal vocational education and training ("**VET**") service provider in China, dedicated to making high-quality non-formal VET services accessible through technology and innovation. As a leading career test preparation service provider in China, we provide a comprehensive suite of recruitment and qualification examination tutoring courses for adult students pursuing careers in government-sponsored institutions and a number of professions and industries. We help college graduates excel in the competitive selection process administered by governmental institutions, and help professionals obtain the relevant qualifications. Most importantly, we help our students advance their personal development and fulfill their own potentials. Leveraging our high-quality tutoring services, comprehensive course offerings and student-centric teaching philosophy, we have successfully established "Fenbi" amid the most recognized brands in China's career test preparation industry. We have received a number of credible accolades in recognition of our brand image in 2022. For example, in December 2022, we were granted the "Intelligent Empowerment Annual Award" (年度智慧賦能獎) by Beijing Evening Post (北京晚報), the official newspaper of Beijing municipality.

We have followed an integrated approach to develop a comprehensive portfolio of career test preparation products and services that generate significant synergies. We deliver our tutoring services through omni-channels. Our instructors deliver courses in live or pre-recorded format and interact with students on Fenbi online platform. To capture the evolving student needs for offline services, we also offer classroom-based tutoring, in which our instructors deliver courses to students who physically attend the lectures in classrooms set up by our local operational hubs. In addition, students taking either online or offline tutoring courses may supplement their learning with our online learning products and toolkits. Students are allowed to choose from our comprehensive online and classroom-based tutoring service offerings based on their learning needs.

- **Online Tutoring**. We deliver online tutoring courses in live or pre-recorded format, or their combination, through our Fenbi online platform, supplemented by well-designed online learning products, including membership package and challenge exercise. Our online tutoring courses cover a wide spectrum of examination categories and cover the full examination preparation cycle and prepare our students for both written tests and interview tests. We primarily deliver our online formal tutoring courses in the types including systematic course, premium course and special course to our students, with flexible learning options to suit their personalized academic and skill competence level. As of December 31, 2022, our online platform had accumulated approximately 50.2 million registered users.

- **Classroom-based Tutoring**. We launched our offline classroom-based tutoring on a large-scale basis in May 2020 through classroom facilities set up by a network of local operational hubs in select cities with considerable student demands. We have successfully built our nationwide coverage and established 198 local operational hubs in strategic localities as of December 31, 2022. Leveraging our broad user base accumulated through our Fenbi online platform, we can channel prospective students with offline education needs to our offline course offerings with premium pricing to facilitate our overall business growth and scale our offline operations in a cost-effective manner.

We operate a scalable business benefiting from our solid online presence and the significant synergies achieved through an innovative online-merge-offline ("**OMO**") model. We are the first internet-born recruitment examination tutoring service provider that integrated offline resources and achieved economies of scale in omni-channels to create unique competitive advantages.

OUTLOOK

China's career test preparation industry has been, and will continue to be, driven by favorable governmental policies, intensified competition, technological innovation, service upgrade and OMO integration. We believe that we are well-positioned to capture the enormous market opportunities and compete in the rapidly changing and highly competitive career test preparation industry.

Looking forward, as a leading career test preparation service provider in China, we pledge our unwavering dedication to excellence in all aspects of our tutoring services. Specifically, we will systematically refine our curricula and teaching methods, increase our content development capability and, ultimately, improve the quality of our tutoring services. We will further expand the coverage of our course offerings and explore innovative course delivery modes in response to evolving industry trends and diverse learning needs. We will continue to invest in research and development initiatives and utilize the power of advanced technologies and data analytics to better serve our students and stay ahead of the competition.

FINANCIAL REVIEW

Revenue

Our revenue decreased by 18.0% from RMB3,428.6 million in 2021 to RMB2,810.4 million in 2022. The following table sets forth a breakdown of our revenue, both in absolute amount and as a percentage of total revenue, by business line for the years indicated.

	Year ended December 31,			
	2022		2021	
	RMB'000	**%**	RMB'000	%
Tutoring services				
Online tutoring services	**1,414,917**	**50.4**	1,396,125	40.7
Classroom-based tutoring services	**938,941**	**33.4**	1,617,330	47.2
Subtotal	**2,353,858**	**83.8**	3,013,455	87.9
Sales of books	**456,571**	**16.2**	415,104	12.1
Total	**2,810,429**	**100.0**	3,428,559	100.0

- *Online tutoring services.* Our revenue generated from online tutoring services remained relatively stable at RMB1,396.1 million and RMB1,414.9 million in 2021 and 2022, respectively.

- *Classroom-based tutoring services.* Our revenue generated from classroom-based tutoring services decreased by 41.9% from RMB1,617.3 million in 2021 to RMB938.9 million in 2022, primarily due to (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 2022, and (2) the strategic adjustment of the scale of our offline coverage to effectively manage our growth and improve our profitability, resulting in a reduction of the number of our operational hubs to 198 as of December 31, 2022.

- *Sales of books.* 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. Our revenue generated from sales of books increased by 10.0% from RMB415.1 million in 2021 to RMB456.6 million in 2022, primarily due to the increased sales volume of our standalone sales activities driven by the accumulated brand recognition and teaching quality.

Cost of sales

Our cost of sales decreased by 44.2% from RMB2,587.7 million in 2021 to RMB1,444.7 million in 2022, primarily due to our optimization of employee structure and course material cost structure and strategic adjustment of the student-instructor ratio per class.

- *Online tutoring services*. Our cost of sales related to online tutoring services decreased by 19.3% from RMB680.5 million in 2021 to RMB549.0 million in 2022, primarily due to (1) the decrease in 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, (2) the decrease in employee benefit expenses as we optimized our employee structure, and (3) the strategic adjustment of the student-instructor ratio per class.

- *Classroom-based tutoring services*. Our cost of sales related to classroom-based tutoring services decreased by 63.5% from RMB1,622.2 million in 2021 to RMB592.7 million in 2022, primarily due to the decreases in (1) employee benefit expenses as we optimized our employee structure, and (2) lease expenses as we strategically adjusted the scale of our offline coverage.

- *Sales of books*. Our cost of sales related to sales of books increased by 6.3% from RMB285.0 million in 2021 to RMB303.0 million in 2022, primarily due to the increased sales volume of our textbooks and learning materials.

Gross profit and gross margin

Our gross profit increased by 62.4% from RMB840.9 million in 2021 to RMB1,365.7 million in 2022, and the corresponding gross margin increased from 24.5% to 48.6%. The following table sets forth a breakdown of our gross profit/(loss) and gross margin by business line for the years indicated.

	Year ended December 31,			
	2022		2021	
	Gross profit	**Gross margin**	Gross profit/ (loss)	Gross margin
	RMB'000	**%**	RMB'000	%
Tutoring services				
Online tutoring services	**865,950**	**61.2**	715,649	51.3
Classroom-based tutoring services	**346,195**	**36.9**	(4,910)	(0.3)
Subtotal	**1,212,145**	**51.5**	710,739	23.6
Sales of books	**153,560**	**33.6**	130,128	31.3
Total	**1,365,705**	**48.6**	840,867	24.5

- *Online tutoring services.* Our gross margin for online tutoring services increased from 51.3% in 2021 to 61.2% in 2022, primarily because we optimized our employee structure for online tutoring, strategically adjusted the student-instructor ratio per class and enhanced our cost control measures in an effort to improve our operational efficiency and profitability.

- *Classroom-based tutoring services.* Our gross margin for classroom-based tutoring services increased from (0.3)% in 2021 to 36.9% in 2022, 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.

- *Sales of books.* Our gross margin for sales of books increased from 31.3% in 2021 to 33.6% in 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 51.5% from RMB1,119.9 million in 2021 to RMB543.7 million in 2022, primarily due to the 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.

Selling and marketing expenses

Our selling and marketing expenses decreased by 26.6% from RMB704.1 million in 2021 to RMB516.8 million in 2022, primarily due to the 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 2022, and (2) employee benefit expenses as a result of our employee structure optimization efforts.

Research and development expenses

Our research and development expenses decreased by 31.5% from RMB287.0 million in 2021 to RMB196.6 million in 2022, primarily due to a decrease in employee benefit expenses as a result of our content development employee structure optimization efforts.

Net impairment losses on financial assets and contract assets

Our net impairment losses on financial assets and contract assets decreased from RMB0.6 million in 2021 to RMB0.3 million in 2022, primarily due to the decreased deposits receivable relating to leased properties in connection with the adjustment of our offline coverage.

Other income

Our other income increased by 30.3% from RMB25.0 million in 2021 to RMB32.6 million in 2022, primarily due to waste paper disposal income from our printing business.

Other losses/gains, net

We had other losses, net of RMB121.8 million in 2022, as compared to other gains, net of RMB1.2 million in 2021, primarily due to (1) net foreign exchange losses of RMB77.8 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 of RMB29.6 million, (3) net fair value losses on derivatives of RMB17.5 million as a result of the differences between the predetermined exchange rates and the actual exchange rates at the maturity dates of our derivatives, and (4) net losses on disposal of property, plant and equipment of RMB8.2 million in connection with our adjustment of offline coverage.

Finance costs, net

Our finance costs, net increased by 85.8% from RMB17.7 million in 2021 to RMB32.9 million in 2022, primarily due to an increase in net foreign exchange losses, partially offset by a decrease in finance cost on lease liabilities in connection with our adjustment of offline coverage.

Loss before income tax

As a result of the foregoing, we recorded loss before income tax of RMB2,045.5 million in 2022, as compared to RMB2,057.9 million in 2021.

Income tax expense/credit

We recorded income tax expense of RMB41.8 million in 2022, as compared to income tax credit of RMB12.0 million in 2021, primarily because we recognized deferred tax assets for eligible losses we carried forward from previous years in 2021, and recorded taxable profits in 2022, which led to reversal of deferred tax assets previously recognized.

Loss for the year

As a result of the foregoing, we recorded net loss of RMB2,046.0 million and RMB2,087.3 million in 2021 and 2022, respectively, representing net loss margin of 59.7% and 74.3%, respectively.

Non-IFRS measure

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted net profit/loss as additional financial measures, which are not required by, or presented in accordance with, the IFRS. We define adjusted net profit/loss (non-IFRS measure) as profit/loss for the year 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 listing 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 have been automatically converted into ordinary shares after the completion of the Global Offering, and we do not expect to record further gains or losses in relation to valuation changes in such instruments after the completion of the Global Offering. 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. Listing expenses were incurred in connection with our preparation for the Global Offering. 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 items that our management does not consider indicative of our operating performance.

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

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Loss for the year	**(2,087,347)**	(2,045,971)
Add:		
Share-based payments	**201,680**	415,379
Fair value losses of financial liabilities at fair value through profit or loss	**2,031,793**	582,957
Loss on settlement of financial liabilities at fair value through profit or loss	**—**	212,760
Listing expenses	**45,368**	12,518
Adjusted net profit/(loss) (non-IFRS measure)	**191,494**	(822,357)

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. Our contract assets decreased from RMB20.5 million as of December 31, 2021 to RMB9.0 million as of December 31, 2022, primarily because we adjusted our business development strategies to reduce the offering of certain postpaid contractual classes.

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. Our contract liabilities decreased from RMB169.2 million as of December 31, 2021 to RMB117.9 million as of December 31, 2022, primarily due to the postponement of certain examinations caused by the COVID-19 resurgence in 2022, which led to the delay of the sales of our courses designed for 2023 examinations.

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. Our refund liabilities decreased from RMB680.3 million as of December 31, 2021 to RMB275.0 million as of December 31, 2022, 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.

Liquidity and capital resources

In 2022, our primary use of cash is to fund the daily operations of our business. We financed our capital expenditures and working capital requirements primarily through cash generated from our operating activities. As of December 31, 2022, we had no bank borrowings or other borrowings.

We have continued to maintain a healthy and sound financial position and have followed a set of funding and treasury policies to manage our capital resources and mitigate potential risks involved. Our net current assets increased from approximately RMB27.7 million as of December 31, 2021 to approximately RMB565.4 million as of December 31, 2022, primarily due to a decrease in refund liabilities of RMB405.3 million as 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.

Cash and cash equivalents

Our cash and cash equivalents primarily consisted of bank deposits on demand. Our cash and cash equivalents decreased from RMB1,159.9 million as of December 31, 2021 to RMB1,047.4 million as of December 31, 2022, primarily because we delayed the sales of our courses designed for 2023 examinations as a result of the postponement of certain examinations that were originally scheduled in the fourth quarter of 2022 amid the regional resurgence of the COVID-19 pandemic.

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

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Net cash used in operating activities	**(83,992)**	(915,129)
Net cash (used in)/generated from investing activities	**(36,792)**	156,516
Net cash (used in)/generated from financing activities	**(85,243)**	1,612,437
Net (decrease)/increase in cash and cash equivalents	**(206,027)**	853,824
Cash and cash equivalents at beginning of the year	**1,159,867**	332,650
Exchange difference	**93,562**	(26,607)
Cash and cash equivalents at the end of the year	**1,047,402**	1,159,867

Exposure to exchange rate fluctuation

The functional currency of our subsidiaries in China is Renminbi, while the functional currency of our Company and subsidiaries outside China is U.S. dollar. Foreign exchange risk arises from the fluctuation in exchange where our monetary assets are denominated in currency other than functional currency. We recognized net foreign exchange losses of RMB77.7 million in 2022, as compared to net foreign exchange gains of RMB12.3 million in 2021.

In addition, in 2022, we recorded exchange differences on translation of RMB93.6 million as other comprehensive income, as compared to negative RMB26.6 million in 2021, primarily due to the exchange rate fluctuation.

We have continued to closely track and manage our exposure to fluctuation in foreign exchange rates confronted by the majority of our deposits in foreign currencies. We invested in foreign exchange derivatives to manage our exposure to foreign exchange risk in relation to proceeds from our equity financing denominated in U.S. dollars. Our management will continue to monitor the movement of the foreign currency rates and will take measures when necessary for the purpose of reducing our exposure to foreign currency exchange risk.

Capital expenditure

In 2022, our total capital expenditure amounted to approximately RMB36.0 million, compared to RMB219.0 million in 2021, which primarily consisted of purchases of property, plant and equipment. We funded our capital expenditure requirements primarily through cash generated from our operating activities in 2022.

Capital commitments

As of December 31, 2022, we did not have any significant capital commitments (2021: Nil).

Contingent liabilities

As of December 31, 2022, 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.

Significant investments, material acquisitions and disposals

During the year ended December 31, 2022, we did not hold any significant investments, nor did we have any material acquisitions or disposals of subsidiaries and affiliated companies.

Future plans for material investments and capital assets

Save as disclosed in the Prospectus and this annual report, we did not have other substantial future plans for material investments and capital assets.

Charge on Group's assets

As of December 31, 2022, we had no charges on our assets (2021: Nil).

Borrowings and gearing ratio

As of December 31, 2022, we did not have any outstanding bank loans or other borrowings. Accordingly, the gearing ratio as of December 31, 2022 (as calculated by total interest-bearing bank borrowings as at the end of respective period divided by total equity as at the same date) was not applicable (2021: N/A).

Key financial indicators

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

	As of/for the year ended December 31, 2022	2021
Profitability ratios		
Gross profit margin(1)	48.6%	24.5%
Net loss margin(2)	(74.3%)	(59.7%)
Adjusted net profit/(loss) margin (non-IFRS measure)(3)	6.9%	(24.0%)
Liquidity ratios		
Current ratio(4)	1.8	1.0
Quick ratio(5)	1.7	1.0

(1) The calculation of gross profit margin is based on gross profit divided by revenue for the year indicated and multiplied by 100%.

(2) The calculation of net loss margin is based on loss for the year divided by revenue for the respective year and multiplied by 100%.

(3) The calculation of adjusted net profit/loss margin (non-IFRS measure) is based on adjusted net profit/loss divided by revenue for the respective year and multiplied by 100%.

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

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

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As of December 31, 2022, the Group had 7,440 full-time employees, as compared to approximately 8,964 full-time employees as of December 31, 2021. The Group incurred a total staff costs (including Directors' emoluments), which primarily consisted of wages, salaries, bonuses, pension and other social security costs, and other employee welfares including share-based payment, in the amount of approximately RMB1,569.3 million for the year ended December 31, 2022.

Substantially all of the Group's employees are based in China. As required under PRC labor laws, the Group enters into individual employment contracts with its employees covering matters such as wages, bonuses, employee benefits, workplace safety, confidentiality obligations, non-competition and grounds for termination. In compliance with PRC regulations, the Group participates in various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans.

To incentivize its employees and promote the long-term growth of the Company, the Company has also adopted the Pre-IPO Share Option Scheme to provide equity incentive to the Group's employees, directors and senior management.

The Group provides robust training programs for its employees, which we believe are effective in equipping them with the skill set and work ethics. The Group recognizes the importance of keeping the Directors updated with the latest information of duties and obligations of a director of a company whose shares are listed on the Stock Exchange and the general regulatory and environmental requirements for such listed company. To meet this goal, the Group is committed to the continuing education and development of the Directors and employees of the Group.

DIRECTORS

Executive Directors

Mr. ZHANG Xiaolong (張小龍), aged 40, is our executive Director, chief executive officer and chairman of the Board. He is primarily responsible for the overall strategic planning and business development and operation, as well as overall technological and curriculum development of our Group. Mr. Zhang started the business of our Group in February 2015 and has served as a director and chief executive officer of Fenbi Bluesky since then. He has also served as director and general manager of certain of our subsidiaries, including serving as the chairman of the board and general manager of Tianxia Education since November 2016 and as the executive director and general manager of Tianxia Culture from March 2016 to April 2019.

Prior to joining our Group, Mr. Zhang served as the director of operation of civil servants examination products at YLBJ, a subsidiary of YUAN Inc, from August 2013 to February 2015. Prior to that, he worked at Beijing Huatu Hongyang Education & Culture Corp., Ltd. (北京華圖宏陽教育文化發展股份有限公司) since August 2011.

Mr. Zhang obtained his bachelor's degree in philosophy from Guizhou University (貴州大學) in July 2005.

Mr. WEI Liang (魏亮), aged 38, is our executive Director, president and chief technology officer. He is primarily responsible for the overall management of online and offline tutoring business and technological matters of our Group. Mr. Wei co-founded our Group together with Mr. Zhang in February 2015 and has served as the president and chief technology officer of Fenbi Bluesky since then.

Prior to joining our Group, Mr. Wei worked at Tencent Technology (Beijing) Co., Ltd. (騰訊科技(北京)有限公司), which is a subsidiary of Tencent Holding Limited, a company listed on the Stock Exchange (stock code: 00700), from February 2012 to January 2015. He also served as the manager for wireless industry department at Kaixinren Network Technology (Beijing) Co., Ltd. (開心人網絡科技(北京)有限公司), which is a subsidiary of Shenzhen Sunwin Intelligent Co., Ltd. (深圳市賽為智能股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300044), from April 2010 to January 2012. Prior to that, Mr. Wei worked at Sony Mobile Communication Products (China) Co., Ltd. (索尼移動通信產品(中國)有限公司) from February 2008 to March 2010.

Mr. Wei obtained a bachelor's degree in computer science from Wuhan University (武漢大學) in June 2005 and a master's degree in software engineering from Beihang University (北京航空航天大學) in January 2008.

Directors and Senior Management

Non-executive Directors

Mr. LI Yong (李勇), aged 48, is our non-executive Director and is primarily responsible for providing guidance and advice on the business strategies of our Group. He has also served as a director of Fenbi Bluesky since February 2015.

Mr. Li is a co-founder and chief executive officer of YUAN Inc since May 2012 and is primarily responsible for the strategic planning and overall operation of YUAN Inc. Prior to that, Mr. Li worked at NetEase, Inc., a company listed on NASDAQ (symbol: NTES) and the Stock Exchange (stock code: 9999), where he was primarily responsible for the operation of portal business since May 2005. Mr. Li is also a co-founder of HELLO GROUP INC., a company listed on NASDAQ (symbol: MOMO), where he previously served as a director from April 2012 to December 2015, and as an independent director from December 2015 to September 2022.

Mr. Li obtained a bachelor's degree in law from Renmin University in China in July 1996, and an MBA degree from Peking University in January 2006.

Ms. LI Xin (李鑫), aged 39, is our non-executive Director and is primarily responsible for providing guidance and advice on the business strategies of our Group. He has also served as a director of Fenbi Bluesky since February 2015.

Mr. Li is a co-founder of YUAN Inc since May 2012 and is primarily responsible for the overall management of branding and marketing of YUAN Inc. Prior to that, he worked at NetEase, Inc., a company listed on NASDAQ (symbol: NTES) and the Stock Exchange (stock code: 9999), where he was successively responsible for the development of financial information business and portal business during the period from June 2005 to February 2007 and from February 2010 to April 2012.

Mr. Li obtained a bachelor's degree in urban planning from Southwest University of Science and Technology (西南科技大學) in June 2005.

Independent Non-executive Directors

Mr. QIU Dongxiao Larry (丘東曉), aged 61, is our independent non-executive Director since January 2023 and is primarily responsible for supervising and providing independent opinion to our Board.

Mr. Qiu has been a chair professor and head of the Department of Economics at Lingnan University (嶺南大學) since January 2020. He was a professor at the Faculty of Business and Economics of University of Hong Kong (香港大學) from January 2008 to December 2019, and served as an associate dean at the Faculty of Business and Economics of University of Hong Kong from February 2012 to December 2019. Prior to that, Mr. Qiu served successively as assistant professor, associate professor and professor at Hong Kong University of Science and Technology (香港科技大學) since July 1993. He is the founding president of China Trade Research Group and was president of the Hong Kong Economic Association from 2015 to 2019. He also served as a Member of the Committee on the Promotion of Civic Education of Hong Kong from 2009 to 2011.

Mr. Qiu obtained a bachelor's degree in mathematics from Sun Yat-sen University (中山大學) in July 1983, a master's degree in arts and a doctorate degree in philosophy from University of British Columbia in May 1989 and November 1993, respectively.

Mr. YUEN Kai Yiu Kelvin (袁啟堯), aged 43, is our independent non-executive Director since January 2023 and is primarily responsible for supervising and providing independent opinion to our Board.

Mr. Yuen has served as the head of North Asia and chief financial officer at Allinfra Ltd. since April 2021. He previously worked at Macquarie Group over a 12 year period from August 2008 to April 2015 and from June 2015 to September 2020. During that period, Mr. Yuen has assumed senior roles including associate director and head of client coverage in Shanghai. Prior to that, he worked at AusNet Services (previously known as SP AusNet) from March 2005 to August 2008. Mr. Yuen also worked as a senior analyst at Deloitte from May 2003 to March 2005 in Australia.

Mr. Yuen obtained a bachelor's degree in commerce from University of Melbourne in March 2001. He became a member of The Institute of Chartered Accountants in Australia in April 2004.

Ms. YUAN Jia (袁佳), aged 42, is our independent non-executive Director since January 2023 and is primarily responsible for supervising and providing independent opinion to our Board.

Ms. Yuan has served as a vice dean at Beijing City University (北京城市學院) since July 2003. She has also served as the executive director of Beijing Capital Kids Future Education Technology Development Co., Ltd. (北京京童未來教育科技發展有限公司) since July 2019 where she is responsible for the general operation of the company, and as an independent director of Beijing Kaiwen Dexin Education Technology Co., Ltd. (北京凱文德信教育科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002659), since August 2022.

Ms. Yuan obtained a bachelor's degree in journalism from China Youth University of Political Studies (中國青年政治學院) in July 2003 and a master's degree in law from China University of Political Science and Law (中國政法大學) in January 2010.

SENIOR MANAGEMENT

Mr. ZHANG Xiaolong (張小龍), aged 40, is our chief executive officer, executive Director and chairman of the Board. Please refer to "Directors and Senior Management — Directors" for his biographical details.

Mr. WEI Liang (魏亮), aged 38, is our executive Director, president and chief technology officer. Please refer to "Directors and Senior Management — Directors" for his biographical details.

Ms. SHENG Haiyan (盛海燕), aged 38, is our vice president, and is responsible for the overall management of book distribution and sales of our Group. Ms. Sheng joined our Group in February 2015 and has served as a director or senior management at certain of our subsidiaries, including serving as a vice president of Fenbi Bluesky since February 2015, as a vice president of Tianxia Culture since March 2016, as the executive director and general manager of Tianxia Culture since April 2019, as a director of Tianxia Education since November 2016, as the executive director and general manager of Beijing Shengshi Jintu Culture Communication Co., Ltd. since September 2020, and as a vice president of Lancai Tianxia since October 2020.

Prior to joining our Group, Ms. Sheng served as a deputy director of online career test preparation department of YLBJ, from August 2013 to February 2015. She also served as a full-time teacher at Beijing Huatu Hongyang Education & Culture Corp., Ltd. (北京華圖宏陽教育文化發展股份有限公司) from April 2010 to October 2013.

Ms. Sheng obtained a bachelor's degree in business administration from Shandong Normal University (山東師範大學) in June 2007 and a master's degree in economics from Renmin University of China (中國人民大學) in July 2010.

Ms. LI Yan (李妍), aged 46, is our vice president, and is responsible for the overall management of branding, public relations and human resources of our Group. Ms. Li joined our Group in November 2017 and has served as a vice president of Fenbi Bluesky since then.

Prior to joining our Group, Ms. Li served successively as an editor, marketing manager and chief editor at NetEase Media Technology (Beijing) Co., Ltd. (網易傳媒科技(北京)有限公司) from February 2002 to November 2017.

Ms. Li obtained a bachelor's degree in computer science from Beijing University of Posts and Telecommunications (北京郵電大學) in January 2004.

Mr. RAN Dong (冉棟), aged 37, is our chief financial officer and vice president. He is primarily responsible for the overall financial management and investment of our Group. Mr. Ran joined our Group in September 2020 and has served as a vice president of Fenbi Bluesky since November 2020.

Prior to joining our Group, Mr. Ran worked at Macquarie Group as a vice president from October 2017 to September 2020, and also held various positions there from July 2011 to July 2015 with his last position as a vice president. During the period from June 2015 to July 2017, he worked at UBS Securities Hong Kong Limited where he served as a director before his departure. Mr. Ran also served as an analyst at Rothschild (Hong Kong) Limited from April 2010 to August 2011. Prior to that, he served as an analyst at BOCI Asia Limited from August 2008 to March 2010.

Mr. Ran obtained a bachelor's degree in economics and finance from the University of Hong Kong (香港大學) in June 2008. He is a registered financial risk manager recognized by Global Association of Risk Professionals (全球風險專業人士協會) since August 2019.

JOINT COMPANY SECRETARIES

Ms. WANG Tao (汪陶) is a joint company secretary of our Company. Ms. Wang joined our Group in March 2020 and has served as the financial director of Fenbi Bluesky since then. Prior to joining our Group, she served as a financial director at Beijing Afanti Technology Co., Ltd. (北京阿凡題科技有限公司) from August 2018 to October 2019. From October 2012 to May 2018, Ms. Wang held various positions at China Telecom Bestpay Co, Ltd. (天翼電子商務有限公司) where she served as the head of finance and capital department before her departure. Prior to that, Ms. Wang worked as an accountant at auto finance center of China CITIC Bank Corporation Limited (中信銀行股份有限公司) from July 2010 to July 2012.

Ms. Wang obtained a bachelor's degree in accounting with a double major in psychology from Peking University (北京大學) in July 2010 and a master's degree in business management from Tsinghua University (清華大學) in June 2017. She was accredited as a non-practicing certified public accountant by the Beijing Institute of Certified Public Accountants in April 2014 and as a chartered financial analyst by CFA Institute in December 2018.

Mr. LEE Chung Shing (李忠成) is a joint company secretary of our Company. Mr. Lee has over 20 years of experience in providing services to listed companies in the areas of auditing, financial management, company secretarial services and investors relations. He is currently an assistant vice president in the Governance Services Department of Computershare Hong Kong Investor Services Limited, and joint company secretary and the company secretary of various companies listed on the Stock Exchange.

Mr. Lee is currently an associate of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He obtained a bachelor's degree in accountancy from City University of Hong Kong and a master's degree in business administration (financial services) from The Hong Kong Polytechnic University.

The Board is pleased to present this Directors' Report together with the consolidated financial statements of the Group for the year ended December 31, 2022.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on December 14, 2020, as an exempted company with limited liability under the Cayman Companies Act. The Company is an investment holding company. The Group is a non-formal vocational education and training service provider in China, with its operations substantially conducted through its subsidiaries in China. The Company was listed on the Main Board of the Stock Exchange on January 9, 2023 with stock code 2469.

The activities and particulars of the Company's principal subsidiaries are set out in Note 36 to the consolidated financial statements. An analysis of the Group's revenue and operating profit for the year ended December 31, 2022 by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and Note 5 to the consolidated financial statements.

BUSINESS REVIEW AND RESULTS

A review of the business of the Group during the Reporting Period, which includes a discussion of the principal risks and uncertainties faced by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, is provided in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Director's Report" in this annual report.

The results of the Group for the Reporting Period are set out in the consolidated financial statements in this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, some of which are inherent to its business and some are affected by the external environment. The Group's principal risks and uncertainties are summarized below. Further discussion and analysis of principal risks and uncertainties facing by the Group are set out in this Director's report.

COVID-19 outbreak

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 the Group's addressable markets. Certain national and provincial recruitment and qualification examinations in China were postponed as a result of the COVID-19 outbreak which required the Group to postpone relevant course delivery correspondingly, leading to delayed revenue recognition. Several other examinations were held earlier than scheduled, which resulted in shortened service periods and lowered course fees the Group charged and, therefore, decreased revenue. Moreover, while the Group temporarily suspended its classroom-based tutoring courses resulting from the restrictions on offline activities during the outbreak, the Group continued to incur relevant employee benefit expenses and fixed cost and expenses relating to leased properties on which the Group operates its classroom-based tutoring services, which adversely affected the results of operations and profitability of the Group.

Although the government has lifted the travel restrictions and eased several containment measures, there may remain uncertainties surrounding the COVID-19 outbreak. We are closely monitoring the development of the COVID-19 pandemic and continuously evaluating any potential impact on business, results of operations and financial condition of the Group.

Foreign exchange risk

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

Price risk

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

Credit Risk

The credit risk of the Group is managed on a group basis. The credit risk of our financial assets, which mainly comprises cash and cash equivalents, contract assets, trade receivables, other receivables, lease receivables and financial assets at fair value through profit or loss and other financial assets at amortised cost, 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.

MAJOR CUSTOMERS AND SUPPLIERS

For the Reporting Period,

(i) the Group's largest supplier accounted for 10.7% (2021: 4.1%) of its total purchases, and the five largest suppliers accounted for 22.1% of its total purchases (2021: 16.6%); and

(ii) the Group's largest customer accounted for 1.0% (2021: 0.5%) of its total revenue, and the five largest customers accounted for 3.5% of its total revenue (2021: 1.6%).

None of the Directors or any of their close associates or any Shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers for 2022.

KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

For details of relationship with the employees, customers and suppliers, please refer to "Major Customers and Suppliers," "Employees, Training and Remuneration Policies" and "Environmental, Social and Governance Report" in this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in Note 13 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in Note 22 to the consolidated financial statements in this annual report.

DEBENTURES

The Company did not issue any debentures during the Reporting Period.

DISTRIBUTABLE RESERVES

As of 31 December 2022, the Company had no reserves available for distribution to its Shareholders.

BORROWINGS

As of December 31, 2022, the Group had no bank borrowings or other borrowings.

EQUITY LINKED AGREEMENTS

Save as disclosed in this annual report, no equity linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Reporting Period or subsisted at the end of the Reporting Period.

DIRECTORS

The Directors from the Listing Date and up to the date of this Directors' Report were:

Executive Directors

Mr. ZHANG Xiaolong *(Chairman of the board and Chief Executive Officer)*
Mr. WEI Liang

Non-executive Directors

Mr. LI Yong
Mr. LI Xin
Mr. LI Zhaohui *(resigned on March 8, 2023)*

Independent Non-executive Directors

Mr. QIU Dongxiao Larry
Mr. YUEN Kai Yiu Kelvin
Ms. YUAN Jia

Biographical details of Directors and senior management are set out in "Directors and Senior Management" of this annual report.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company during the period from the Listing Date to the date of this annual report are set out below:

1. Mr. LI Zhaohui resigned as a non-executive Director with effect from March 8, 2023 to devote more time to pursue other business engagements.

Save as disclosed in this annual report, there were no changes in information of Directors of the Company that are required to be disclosed pursuant to Rule 13.51(B)(1) of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

On December 20, 2022, each of the executive Directors has entered into a service contract with our Company, and each of the non-executive Directors and independent non-executive Directors have entered into letters of appointment with our Company. The service contracts with each of our executive Directors and the letters of appointment with each of our non-executive Directors are for an initial fixed term of three years commencing from December 20, 2022. The letters of appointment with each of our independent non-executive Directors are for an initial fixed term of three years since the Listing Date. The service contracts and the letters of appointment are subject to termination in accordance with their respective terms or by either party giving to the other not less than three-month prior written notice. The appointment of the Directors is subject to the provisions of retirement and rotation of Directors under the Articles of Association.

Save as disclosed above, none of the Directors has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year ended December 31, 2022, none of the Directors were interested in any business which competes or is likely to compete with the businesses of the Group, which would require disclosure in accordance with Rule 8.10 of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the sections headed "Connected Transactions" and "Related Party Transactions" in this annual report, none of the Directors or their respective connected entities (as defined in the Listing Rules) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to which the Company was a party subsisting during or at the end of the year ended December 31, 2022.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in the sections headed "Connected Transactions" and "Related Party Transactions" in this annual report, no contract of significance (including provision of services) has been entered into between the Company or any of its subsidiaries and a Controlling Shareholder or any of its subsidiaries during the year ended December 31, 2022.

CONNECTED TRANSACTIONS

Upon Listing, transactions between members of the Group and the Company's connected persons have become connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Details of the non-exempt continuing connected transactions are set out below in the sections headed "Continuing Connected Transactions" and "Contractual Arrangements" in this report.

RELATED PARTY TRANSACTIONS

Certain related party transactions as disclosed in Note 33 to the consolidated financial statements in this annual report constituted as connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and are in compliance with the disclosure requirements under Chapter 14A of the Listing Rules and disclosed in this annual report.

CONTINUING CONNECTED TRANSACTIONS

Cloud Services and Technical Services Framework Agreement

In December 2022, Fenbi Bluesky (for itself and on behalf of other members of our Group) entered into a cloud services and technical services framework agreement (the "**Cloud Services and Technical Services Framework Agreement**") with Tencent Computer, pursuant to which Tencent Computer agreed to provide cloud services and other cloud-related technical services to us for service fees. Considering our business has undergone and is expected to undergo rapid growth, we believe that obtaining such services from an integrated service provider is a cost-effective alternative to building all supporting technology infrastructure internally. We will be able to reduce unnecessary management resources and costs incurred from the purchase of additional technology hardware and tools, and recruitment of additional full-time information technology and maintenance staff. The precise scope of service, service fee calculation, method of payment and other details of the service arrangement will be agreed between the relevant parties separately. The term of the Cloud Services and Technical Services Framework Agreement shall commence from the date of signing and expire on December 31, 2024. Please refer to "Connected Transactions" section in the Prospectus for details.

The service fee will be agreed by the parties through arm's length negotiations based on the fee rates disclosed on the relevant official websites of Tencent. We will take into account a number of factors, including but not limited to (i) the quality and stability of cloud and technical services of different service providers; and (ii) the service fee rates. We will only enter into a cloud services and technical services agreement with Tencent Computer if the terms and conditions are fair and reasonable and based on normal or no less favorable commercial terms than those offered by other independent third party service providers.

The annual cap of service fees to be paid by our Group to Tencent Computer for procurement of cloud services and technical services for the year ended December 31, 2022 is approximately RMB14.0 million, while the actual transaction amount incurred in accordance with the Cloud Services and Technical Services Framework Agreement for the year ended December 31, 2022 was approximately RMB10.5 million.

Tencent Computer is a subsidiary of Tencent, one of our substantial shareholders. Accordingly, Tencent Computer is a connected person of the Company under Rule 14A.07 of the Listing Rules and the transactions with Tencent Computer constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Payment Services Framework Agreement

In December 2022, Fenbi Bluesky (for itself and on behalf of other members of our Group) entered into a payment services framework agreement (the "**Payment Services Framework Agreement**") with Tencent Computer, pursuant to which Tencent Computer agreed to provide us with payment services through its payment channels so as to enable our customers to conduct online transactions and we will pay service commissions to Tencent Computer in respect of such services. The precise scope of service, service fee calculation, method of payment and other details of the service arrangement will be agreed between the relevant parties separately. The term of the Payment Services Framework Agreement shall commence from the date of signing and expire on December 31, 2024. Please refer to "Connected Transactions" section in the Prospectus for details.

Before entering into any payment service agreement pursuant to the Payment Services Framework Agreement, we will assess our business needs and compare the payment service commissions proposed by Tencent Computer with the commissions offered by at least one other comparable service provider. In addition, we will take into account a number of factors, including but not limited to (i) the efficiency of payment channels operated by different online payment service providers; (ii) consumers' preference among different online payment service providers; and (iii) the payment service commission rates. We will only enter into a payment service agreement with Tencent Computer if the terms and conditions are fair and reasonable and based on normal or no less favorable commercial terms than those offered by other independent third-party service providers.

The annual cap of the payment service commissions paid by our Group to Tencent Computer for the year ended December 31, 2022 is approximately RMB13.0 million, while the actual transaction amount incurred in accordance with the Payment Services Framework Agreement for the year ended December 31, 2022 was approximately RMB6.8 million.

Tencent Computer is a subsidiary of Tencent, one of our substantial shareholders. Accordingly, Tencent Computer is a connected person of the Company under Rule 14A.07 of the Listing Rules and the transactions with Tencent Computer constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Printing Services Framework Agreement

In December 2022, Lancai Tianxia entered into a printing services framework agreement (the "**Printing Services Framework Agreement**") with YLBJ (for itself and on behalf of its subsidiaries), pursuant to which YLBJ agreed to engage Lancai Tianxia to provide custom printing and book binding services for its self-developed learning materials. Given the great demand of YLBJ for printing services, we could benefit from the business cooperation between us and YLBJ in expansion and promotion of our printing services, which enable us to enhance our competitiveness. We could also reduce unnecessary management resources and costs incurred from client sourcing. The precise scope of service, service fee calculation, method of payment and other details of the service arrangement will be agreed between the relevant parties separately. The term of the Printing Services Framework Agreement shall commence from the date of signing and expire on December 31, 2024. Please refer to "Connected Transactions" section in the Prospectus for details.

Before entering into any printing services agreement pursuant to the Printing Services Framework Agreement, we will review and ensure the payment arrangement of such individual printing services agreement are on normal commercial terms. The fee quotes offered by us shall take into account the quantity of the relevant orders, the service scopes and the anticipated operational costs (including labor costs, material costs and administrative costs), with reference to the rates generally offered by us to Independent Third Parties in respect of comparable goods and services, and the prevailing market price of comparable goods and services.

The annual cap of the total revenues from YLBJ for procurement of our printing services for the year ended December 31, 2022 is approximately RMB2.5 million, while the actual transaction amount incurred in accordance with the Printing Services Framework Agreement for the year ended December 31, 2022 was approximately RMB1.1 million.

As of the date of this annual report, YLBJ is owned as to 63.568% by Mr. LI Yong, our Director and one of our Controlling Shareholders, and is a subsidiary of YUAN Inc (through contractual arrangements) which is in turn controlled by Mr. LI Yong through more than 30% of the voting power at general meeting of YUAN Inc. Accordingly, YLBJ is a connected person of the Company under Rule 14A.07 of the Listing Rules and the transactions with YLBJ constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Annual Review by Independent Non-executive Directors and the Auditor

The independent non-executive Directors have reviewed the continuing connected transactions mentioned above pursuant to Rule 14A.55 of the Listing Rules and confirmed that the aforesaid continuing connected transactions had been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better to the Group; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company has been engaged to report on the continuing connected transactions of the Company in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their conclusions in respect of the aforesaid continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. The auditor of the Company has confirmed in a letter to the Board with a copy to the Stock Exchange that, with respect to the aforesaid continuing connected transactions entered into during the Reporting Period:

(i) nothing has come to their attention that cause them to believe that the aforesaid continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that such transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to their attention that causes them to believe that the aforesaid continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

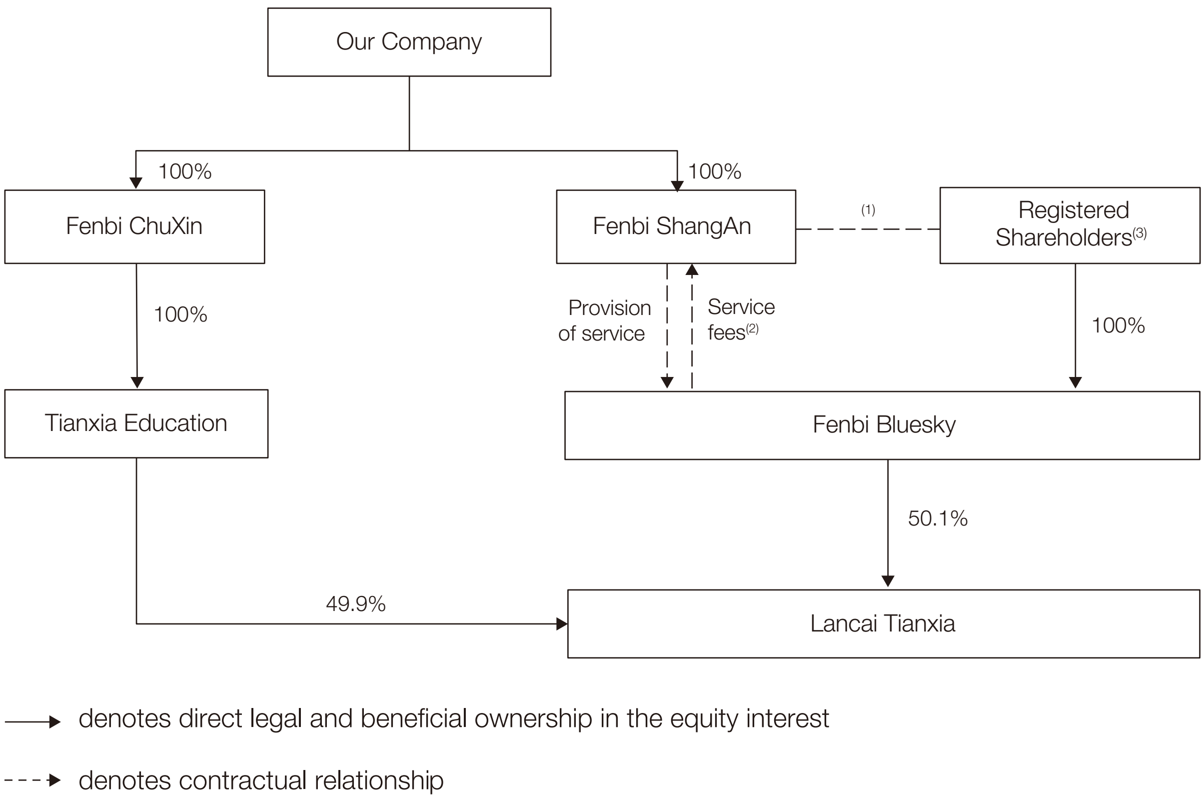
(iv) with respect to the aggregate actual transaction amount of each of the aforesaid continuing connected transactions, nothing has come to their attention that causes them to believe that such actual transaction amounts have exceeded the relevant annual caps as set by the Company.

CONTRACTUAL ARRANGEMENTS

Overview

Our online non-formal vocational education and training services and book printing business in the PRC (the "**Relevant Businesses**") are subject to foreign investment restrictions under PRC laws. To comply with the relevant PRC laws, our Relevant Businesses are directly conducted through our Consolidated Affiliated Entities. On July 31, 2021, we entered into the Contractual Arrangements through which, together with the equity holding, we are able to exercise control over and enjoy all the economic benefits derived from the operations of the Consolidated Affiliated Entities. The Contractual Arrangements have been narrowly tailored to achieve our business purpose and minimize the potential conflict with relevant PRC laws and regulations.

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



Notes:

(1) Control of Fenbi ShangAn over Fenbi Bluesky through the following agreements with the Registered Shareholders: (i) Shareholder Right Proxy Agreement, (ii) Exclusive Option Agreement, and (iii) Equity Pledge Agreement. Please refer to "Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements" in the Prospectus for details.

(2) Control of Fenbi ShangAn over Fenbi Bluesky through the Business Cooperation and Service Agreement. Please refer to "Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements" in the Prospectus for details.

(3) The Registered Shareholders refer to the registered shareholders of Fenbi Bluesky. Fenbi Bluesky is owned as to 92.45%, 5.00%, 2.25%, 0.10%, 0.10% and 0.10% by Mr. Zhang, Beijing Fenbi Box, Mr. WEI Liang, Mr. LI Yong, Mr. LI Xin and Mr. GUO Changzhen, respectively. Beijing Fenbi Box is owned as to 95.0% by Mr. Zhang as the general partner and as to 5.0% by Mr. WEI Liang as the limited partner.

The Consolidated Affiliated Entities contributed a significant portion of our Group's financial positions and results of operations. The revenue of our Consolidated Affiliated Entities amounted to RMB1,511.3 million for the year ended December 31, 2022, representing approximately 53.8% of the total revenue of our Group.

Summary of the Material Terms of the Contractual Arrangements

A description of each of the specific agreements that comprise the Contractual Arrangements is set out below.

Business Cooperation and Service Agreement

As part of the Contractual Arrangements, Fenbi ShangAn entered into a business cooperation and service agreement (the "**Business Cooperation and Service Agreement**") with Fenbi Bluesky and its subsidiary on July 31, 2021, pursuant to which Fenbi ShangAn agreed to be engaged as the exclusive provider of technical services, management support services, consulting services, market research and other services to the Consolidated Affiliated Entities, in exchange for service fees. Under the Business Cooperation and Service Agreement, the service fees payable to Fenbi ShangAn, subject to the adjustment by Fenbi ShangAn, shall equal to the total profit of the Consolidated Affiliated Entities, after deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year.

In addition, without the prior written consent of Fenbi ShangAn, during the term of the Contractual Arrangements, with respect to the services subject to the Business Cooperation and Service Agreement, Fenbi Bluesky and its subsidiary shall not establish cooperation relationships similar to those formed by the Business Cooperation and Service Agreement with any third party.

The Business Cooperation and Service Agreement also provides that Fenbi ShangAn has the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by Fenbi Bluesky or its subsidiary during the performance of the Business Cooperation and Service Agreement.

The Business Cooperation and Service Agreement shall remain in effect until (1) Fenbi ShangAn exercises its exclusive options to purchase the entire equity interests in Fenbi Bluesky and its subsidiary from the Registered Shareholders pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws, or (2) Fenbi ShangAn exercises its unilateral right of termination.

Exclusive Option Agreement

Fenbi ShangAn entered into an exclusive option agreement (the "**Exclusive Option Agreement**") on July 31, 2021 with Fenbi Bluesky and its subsidiary and the Registered Shareholders, pursuant to which Fenbi ShangAn (or its designees) has an irrevocable and exclusive right to purchase from the Registered Shareholders all or any part of their equity interests in Fenbi Bluesky and its subsidiary, and an irrevocable and exclusive right to purchase from Fenbi Bluesky and its subsidiary all or any part of their assets, at a minimal price required by the relevant government authorities or PRC laws. To the extent permitted by applicable PRC laws and regulations, the Registered Shareholders shall return the amount of purchase price they have received in full to Fenbi ShangAn. At Fenbi ShangAn's request, the Registered Shareholders, Fenbi Bluesky and/or its subsidiary will promptly and unconditionally transfer their respective equity interests and/or assets to Fenbi ShangAn (or its designee) after Fenbi ShangAn exercises its this option.

In order to prevent the flow of the assets and value of the Consolidated Affiliated Entities to the Registered Shareholders, during the terms of the Exclusive Option Agreement, none of the assets of the Consolidated Affiliated Entities shall be sold, transferred or otherwise disposed of without the prior written consent of Fenbi ShangAn. In addition, Fenbi Bluesky is not allowed to make any distributions to the Registered Shareholders without the prior written consent of Fenbi ShangAn. In the event that the Registered Shareholders receive any profit distribution or dividend from Fenbi Bluesky, the Registered Shareholders must immediately pay or transfer such amount to Fenbi ShangAn (or its designee). If Fenbi ShangAn exercises this option, all or any part of the equity interests of Fenbi Bluesky and its subsidiary acquired would be transferred to Fenbi ShangAn and the benefits of equity ownership would flow to the Company and our Shareholders.

The Exclusive Option Agreement shall remain in effect until (1) Fenbi ShangAn (or its designee) exercises its exclusive options to purchase the entire equity interests in Fenbi Bluesky and its subsidiary from the Registered Shareholders pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws, or (2) Fenbi ShangAn exercises its unilateral and unconditional right of termination.

Equity Pledge Agreement

Fenbi ShangAn entered into an equity pledge agreement (the "**Equity Pledge Agreement**") on July 31, 2021 with the Registered Shareholders, Fenbi Bluesky and its subsidiary, pursuant to which the Registered Shareholders agreed to pledge all their respective equity interests in Fenbi Bluesky that they legally own to Fenbi ShangAn as a first security interest to guarantee the performance of contractual obligations of Fenbi Bluesky and the Registered Shareholders under the relevant Contractual Arrangements.

Under the Equity Pledge Agreement, the Registered Shareholders have agreed that, without prior written consent of Fenbi ShangAn, they will not transfer or dispose the pledged equity interests or create or allow any third party to create any encumbrance on the pledged equity interests that would prejudice Fenbi ShangAn's interest.

The Equity Pledge Agreement shall remain in effect until (1) the satisfaction of all contractual obligations of Fenbi Bluesky and the Registered Shareholders in full, or (2) Fenbi ShangAn exercises its unilateral and unconditional right of termination. The equity pledges under the Equity Pledge Agreements have been duly registered with the relevant PRC authority pursuant to the relevant PRC laws and regulations.

Shareholder Right Proxy Agreement and Powers of Attorney

Under the shareholder right proxy agreement entered into by and among Fenbi ShangAn, the Registered Shareholders and Fenbi Bluesky on July 31, 2021 (the "**Shareholder Right Proxy Agreement**"), and the irrevocable powers of attorney executed by each of the Registered Shareholders on the same date (the "**Powers of Attorney**"), the Registered Shareholders have appointed Fenbi ShangAn, or any director of Fenbi ShangAn or the person designated by Fenbi ShangAn (including a liquidator replacing the person designated by the Fenbi ShangAn) as their agent and attorney to act on their behalf on all matters concerning Fenbi Bluesky and to exercise all of their rights as registered shareholders, including but not limited to (1) the right to propose to convene and attend shareholders' meetings; (2) the right to exercise voting rights on all matters that require discussion and resolution at shareholders' meeting, approve and sign resolutions on behalf of the relevant Registered Shareholder; (3) the right to exercise all shareholder rights and shareholder voting rights under applicable PRC laws and the articles of association; (4) the right to sign the relevant equity transfer agreement and other relevant documents on behalf of the relevant Registered Shareholder and handle the relevant procedures required for the equity transfer in accordance with the relevant Exclusive Option Agreement and Equity Pledge Agreement; and (5) the right to instruct the directors and senior managers of Fenbi Bluesky to act in accordance with the instructions of Fenbi ShangAn (or its designee) without violating the applicable PRC laws, regulations and the articles of association.

The Shareholder Right Proxy Agreement also provides that, in order to avoid potential conflicts of interest, where the Registered Shareholders are officers or directors of the Company, the powers of attorney are granted in favour of officers or directors of the Company other than those who are the Registered Shareholders.

The Shareholder Right Proxy Agreement shall remain in effect until (1) Fenbi ShangAn (or its designee) exercises its exclusive options to purchase the entire equity interests in Fenbi Bluesky and its subsidiary from the Registered Shareholders pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws, or (2) Fenbi ShangAn exercises its unilateral and unconditional right of termination.

Loan Agreement

Pursuant to the Loan Agreement entered into by and among Fenbi ShangAn and Fenbi Bluesky on July 31, 2021, Fenbi ShangAn agreed to provide interest-free loans to Fenbi Bluesky in accordance with the PRC laws and regulations and Fenbi Bluesky agreed to utilize the proceeds of such loans to contribute to business operation and development of its subsidiary.

The terms of the Loan Agreement shall remain in effect until (1) Fenbi ShangAn (or its designee) exercises its exclusive options to purchase the entire equity interests in Fenbi Bluesky and its subsidiary from the Registered Shareholders pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws, or (2) Fenbi ShangAn exercises its unilateral and unconditional right of termination.

Each loan to be granted under the Loan Agreement will be for an infinite term until termination at the sole discretion of Fenbi ShangAn. The loans will become due and payable upon Fenbi ShangAn's demand under any of the following circumstances, as the case may be: (1) a bankruptcy application, bankruptcy reorganization or bankruptcy settlement has been filed by or against Fenbi Bluesky, (2) a winding-up or liquidation application has been filed by or against Fenbi Bluesky, (3) Fenbi Bluesky becoming insolvent or incurring any other significant debt which may affect its ability to repay the loan under the relevant Loan Agreement, (4) Fenbi ShangAn or its designee exercising in full their option to purchase all equity interest in Fenbi Bluesky and its subsidiary from the Registered Shareholders to the extent permitted by PRC laws and regulations, or (5) any of relevant contractual parties (except for Fenbi ShangAn) commits any breach of any obligations under the Contractual Arrangements, or any warranties provided by relevant contractual parties (except for Fenbi ShangAn) under the Contractual Arrangements is proved incorrect or inaccurate.

Save as disclosed above, there were no other new contractual arrangements entered into, renewed and/or reproduced between our Group and our Consolidated Affiliated Entities during the year ended December 31, 2022. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended December 31, 2022.

For the year ended December 31, 2022, none of the Contractual Arrangements had been unwound on the basis that none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. As of December 31, 2022, we had not encountered interference or encumbrance from any PRC governing bodies in operating our businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

Reasons for Adopting the Contractual Arrangements

The Relevant Businesses we currently operate are subject to foreign investment restriction or prohibition under PRC laws and regulations. In particular, Fenbi Bluesky operates a mixture of "prohibited business" and "restricted business" under Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021) (外商投資准入特別管理措施(負面清單)(2021年版)) (the "**2021 Negative List**"). Fenbi Bluesky delivers online courses in live or pre-recorded format, or a combination of both, through Fenbi online platform, which involves providing internet information services, hence constituting value-added telecommunications services under the applicable PRC laws and "restricted businesses" under the 2021 Negative List. Meanwhile, such business operation of Fenbi Bluesky involves (i) the production of content in video format, which constitutes radio and television program production and operation pursuant to the Regulations on the Administration of Production of Radio and Television Programmes (廣播電視節目製作經營管理規定), and (ii) the provision of video and audio content on online platforms, which falls within the scope of internet audio-visual programs services pursuant to the Administrative Regulations on Internet Audio-visual Program Service (互聯網視聽節目服務管理規定). The aforementioned business is provided to users of the Group through Fenbi online platform, where the tutoring services and course content have been fully integrated on such online platform under the same domain name and are inseparable. Additionally, it is not commercially practical to separate the value-added telecommunications business, the internet audio-visual program services and radio and the television program production services because they are carried out through common human resources, working capital, software and hardware on the same platform. Each of the radio and television program production and operation business and the internet audio-visual programs services falls within the scope of "prohibited business" under the 2021 Negative List. Moreover, Lancai Tianxia operates book printing business, which falls within the scope of publication printing business and such scope belongs to the "restricted" investment category. Our Company, as a foreign entity, shall not directly or indirectly hold more than 50% of the equity interests in Lancai Tianxia.

Based on the above, we believe that to maintain the business operations and effectiveness of the licenses and permits held by the Consolidated Affiliated Entities, the Consolidated Affiliated Entities must be controlled by the Company through the Contractual Arrangements. In line with common practice in industries in the PRC subject to foreign investment restriction or prohibition, we would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements among Fenbi ShangAn, Fenbi Bluesky and its registered shareholders (the "**Registered Shareholders**"). In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of the Group's operations, we have implemented the Contractual Arrangements with regards to our Consolidated Affiliated Entities. The Contractual Arrangements allow the financials and results of operations of our Consolidated Affiliated Entities to be consolidated into our financials and results of operations under the IFRS as if they were wholly-owned subsidiaries of our Company.

Risks relating to the Contractual Arrangements

There are certain risks associated with the Contractual Arrangements, including:

(1) If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in the Consolidated Affiliated Entities.

(2) Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. The Consolidated Affiliated Entities or the Registered Shareholders may fail to perform their obligations under our Contractual Arrangements.

(3) We may lose the ability to use and enjoy assets held by the Consolidated Affiliated Entities that are material to our business operations if the Consolidated Affiliated Entities were to declare bankruptcy or become subject to a dissolution or liquidation proceeding.

(4) The Registered Shareholders may have conflicts of interest with us, and they may breach their obligations under the Contractual Arrangements or cause such arrangements to be amended in a manner contrary to our interests.

(5) If we exercise the option to acquire equity ownership and assets of the Consolidated Affiliated Entities, the ownership or asset transfer may subject us to certain limitations and substantial costs.

(6) Certain terms of the Contractual Arrangements may not be enforceable under PRC laws.

(7) Uncertainties exist with respect to the interpretation and implementation of the newly enacted Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance, business, results of operations, financial condition and prospects.

(8) Our Contractual Arrangements may result in adverse tax consequences to us.

(9) We do not have any insurance to cover the risks relating to the Contractual Arrangements and the transactions contemplated thereunder.

Please refer to "Risk Factors — Risks Relating to our Contractual Arrangements" in the Prospectus for details.

Actions Taken by the Group to Mitigate the Risks relating to the Contractual Arrangements

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

(1) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;

(2) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

(3) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports; and

(4) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of Fenbi ShangAn and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Listing Rules Implications and Waiver from the Stock Exchange and annual review

The transactions contemplated under certain Contractual Arrangements constitute continuing connected transactions of the Company under the Listing Rules upon Listing as certain parties to the Contractual Arrangements, including Mr. Zhang, are connected persons of the Group pursuant to Chapter 14A of the Listing Rules.

One or more of the applicable percentage ratios of transactions contemplated under the Contractual Arrangements are expected to be more than 5%. Therefore, the transactions will constitute non-exempt continuing connected transactions of our Group and will be subject to reporting, announcement, circular, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (1) the announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (2) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (3) the requirement of limiting the terms for the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to the following conditions:

(1) no change to the Contractual Arrangements (including with respect to any fees payable to Fenbi ShangAn thereunder) will be made without the approval of the independent non-executive Directors;

(2) save as described in paragraph (4) below, no change to the agreements governing the Contractual Arrangements will be made without the approval of our Company's independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable;

(3) the Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities;

(4) on the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements; and

(5) the Group will disclose details relating to the Contractual Arrangements on an ongoing basis.

Annual Review by the Independent Non-executive Directors and the Auditor

The independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

(1) the transactions under the Contractual Arrangements carried out during the year ended December 31, 2022 had been entered into in accordance with the relevant provisions of the Contractual Arrangements;

(2) no dividends or other distributions had been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group during the year ended December 31, 2022;

(3) no new contracts had been entered into, renewed and/or reproduced between the Group and the Consolidated Affiliated Entities for the year ended December 31, 2022; and

(4) the Contractual Arrangements had been entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable and in the interest of the Group and the Shareholders as a whole.

The auditor of the Company has confirmed in a letter to the Board with a copy to the Stock Exchange that, with respect to Contractual Arrangements:

(1) nothing has come to their attention that causes the auditor to believe that the Contractual Arrangements have not been approved by the Board;

(2) nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions; and

(3) nothing has come to their attention that causes the auditor to believe that dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of their equity interests which are not otherwise subsequently assigned or transferred to the Group.

For details of the Contractual Arrangements, please refer to the sections headed "Contractual Arrangements" and "Connected Transactions" in the Prospectus.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Directors and senior management receive emolument from the Company in the form of salaries, remuneration, pension, discretionary bonus and other welfares. The Board has established the Remuneration Committee to review and recommend the remuneration and compensation packages of the Directors and senior management of the Company, and the Board, with the advice from the Remuneration Committee, will review and determine the remuneration and compensation packages taking into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management and performance of the Group.

Details of the emoluments of the Directors and five highest paid individuals in the Group are set out in Notes 34 and 9(b) to the consolidated financial statements in this annual report.

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors or other individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

ENVIRONMENTAL POLICIES AND PERFORMANCE

It is our corporate and social responsibility in promoting a sustainable and environmental friendly environment. We strive to minimize our environmental impact and to build our corporation in a sustainable way.

We are subject to environmental protection and occupational health and safety laws and regulations in China. In 2022, we complied with the relevant environmental and occupational health and safety laws and regulations in China in all material aspects and we did not have any incidents or complaints that had a material and adverse effect on our business, results of operations and financial condition.

The environmental, social and governance report of the Company prepared in accordance with Appendix 27 of the Listing Rules is set out in the section headed "Environmental, Social and Governance Report" in this annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of the date of this annual report, to the best knowledge of the Directors, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(A) Interest in the Company

Name of Director/ Chief Executive	Capacity/Nature of interest	Number of Shares held[1]	Approximate percentage of interest[1]
Mr. ZHANG Xiaolong[2][3]	Interest in controlled corporation	257,200,000 (L)	12.26%
	Interest held jointly with another person	504,257,000 (L)	24.04%
Mr. WEI Liang[2][4]	Interest in controlled corporation	57,665,000 (L)	2.75%
	Beneficial interest	27,500,000 (L)	1.31%
	Interest held jointly with another person	676,292,000 (L)	32.25%
Mr. LI Yong[2][5]	Interest in controlled corporation	259,736,000 (L)	12.38%
	Interest held jointly with another person	501,721,000 (L)	23.92%
Mr. LI Xin[2][6]	Beneficial interest	79,132,000 (L)	3.77%
	Interest in controlled corporation	80,224,000 (L)	3.83%
	Interest held jointly with another person	602,101,000 (L)	28.71%

The letter "L" denotes the person's long position in the Shares.

(1) The calculation is based on the total number of 2,097,308,000 Shares in issue as of the date of this annual report, without taking into account any Shares that may be issued under the Pre-IPO Share Option Scheme.

(2) Mr. Zhang, Mr. WEI Liang, Mr. LI Yong and Mr. LI Xin entered into a concert party agreement to acknowledge and confirm their acting-in-concert relationship in relation to the Company. Please refer to "History, Reorganization and Corporate Structure" and "Relationship with Our Controlling Shareholders — Our Controlling Shareholders" in the Prospectus for details. Under the SFO, Mr. Zhang, Mr. WEI Liang, Mr. LI Yong and Mr. LI Xin are deemed to be interested in the Shares which each other has interest in.

(3) Mr. ZHANG Xiaolong is deemed to be interested in the entire interests held by Chalk Sky Ltd, which is owned as to (a) 99.998% by Sonata (BVI) Limited, which is in turn wholly owned by Ocorian Trust Company as the trustee for ZXL Family Trust with Mr. ZHANG Xiaolong as the settlor and protector, and (b) 0.002% by Chalk Star Ltd, which is wholly owned by Mr. ZHANG Xiaolong.

(4) Mr. WEI Liang is deemed to be interested in the entire interests held by Chalk World Ltd, which is owned as to (a) 99.998% by Creciendo (BVI) Limited, which is in turn wholly owned by Ocorian Trust Company as the trustee for WL Family Trust with Mr. WEI Liang as the settlor and protector, and (b) 0.002% by Chalk Wonder Ltd, which is wholly owned by Mr. WEI Liang. Mr. Wei is also interested in 27,500,000 Shares underlying the outstanding options granted to him pursuant to the Pre-IPO Share Option Scheme.

(5) Liang Ma Limited is wholly-owned by Mr. LI Yong.

(6) Green Creek Holding Limited is wholly-owned by Mr. LI Xin. Taurus Fund L.P. is a Cayman Islands Limited partnership, the general partner of which is controlled by Mr. LI Xin. Mr. LI Xin is deemed to be interested in the entire interests held by Green Creek Holding Limited and Taurus Fund L.P.

(B) Interest in associated corporations of the Company

Name of Director/ Chief Executive	Capacity/Nature of interest	Name of associated corporation	Approximate percentage of interest
Mr. ZHANG Xiaolong(1)	Beneficial interest; interest in controlled corporation	Fenbi Bluesky	97.45%
Mr. WEI Liang	Beneficial interest	Fenbi Bluesky	2.25%
Mr. LI Yong	Beneficial interest	Fenbi Bluesky	0.10%
Mr. LI Xin	Beneficial interest	Fenbi Bluesky	0.10%

(1) Mr. Zhang is the general partner of Beijing Fenbi Box and thus deemed to be interested in the entire interests held by Beijing Fenbi Box in Fenbi Bluesky, namely 5% of the equity interests in Fenbi Bluesky.

Save as disclosed above and to the best knowledge of the Directors, as of the date of this annual report, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or which would be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or which would be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of the date of this annual report, to the best of knowledge of the Directors, the following persons, other than Directors or chief executive of the Company, had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity/Nature of interest	Number of shares held	Approximate percentage of interest(1)
Chalk Sky Ltd(2)	Beneficial interest	257,200,000 (L)	12.26%
Sonata (BVI) Limited(2)	Interest in controlled corporation	257,200,000 (L)	12.26%
Liang Ma Limited(3)	Beneficial interest	259,736,000 (L)	12.38%
Ocorian Trust Company(4)	Trustee	314,865,000 (L)	15.01%
Tencent Shareholders			
Morespark Limited(5)	Beneficial interest	84,724,000 (L)	4.04%
Tencent Mobility Limited(5)	Beneficial interest	178,736,000 (L)	8.52%
Triple Max Holding Limited(5)	Beneficial interest	8,694,000 (L)	0.41%
TPP Opportunity I Holding C Limited(5)	Beneficial interest	13,042,000 (L)	0.62%
TPP Fund II Holding C Limited(5)	Beneficial interest	8,330,000 (L)	0.40%

Name of shareholder	Capacity/Nature of interest	Number of shares held	Approximate percentage of interest[(1)]
IDG USD Fund Shareholders			
Modish Century Limited[(6)]	Beneficial interest	40,485,630 (L)	1.93%
IDG-Accel China Growth Fund III L.P.[(6)]	Beneficial interest	142,454,000 (L)	6.79%
IDG-Accel China III Investors L.P.[(6)]	Beneficial interest	10,108,000 (L)	0.48%
EVEN CLASSIC LIMITED[(6)]	Beneficial interest	25,506,000 (L)	1.22%
Spring Moment Limited[(6)]	Beneficial interest	5,366,000 (L)	0.26%
IDG RMB Fund Shareholder			
Merchant Skill Limited[(6)]	Beneficial interest	24,291,370 (L)	1.16%
Matrix Shareholders			
Matrix Partners China II, L.P.[(7)]	Beneficial interest	134,884,800 (L)	6.43%
Matrix Partners China II-A, L.P.[(7)]	Beneficial interest	14,987,200 (L)	0.71%
Hillhouse Shareholders			
VH PDII Holdings Limited[(8)]	Beneficial interest	8,148,000 (L)	0.39%
HH AUT-XI Holdings Limited[(8)]	Beneficial interest	84,724,000 (L)	4.04%
SUM XIII Holdings Limited[(8)]	Beneficial interest	32,148,000 (L)	1.53%

The letter "L" denotes the person's long position in the Shares.

(1) The calculation is based on the total number of 2,097,308,000 Shares in issue as of the date of this annual report, without taking into account any Shares that may be issued under the Pre-IPO Share Option Scheme.

(2) See note (3) under the section headed "Directors' Report — Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in this annual report for more information.

(3) See note (5) under the section headed "Directors' Report — Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in this annual report for more information.

(4) See notes (3) and (4) under the section headed "Directors' Report — Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in this annual report for more information.

(5) Morespark Limited, Tencent Mobility Limited, Triple Max Holding Limited, TPP Opportunity I Holding C Limited, and TPP Fund II Holding C Limited are ultimately controlled by Tencent Holdings Limited, a company listed on the Stock Exchange (stock code: 700).

(6) IDG-Accel China Growth Fund III L.P. and IDG-Accel China III Investors L.P. are exempted limited partnerships incorporated under the laws of the Cayman Islands which are ultimately controlled by Mr. Quan Zhou and Mr. Chi Sing Ho. Each of Modish Century Limited and Spring Moment Limited is a BVI business company and wholly owned by IDG Breyer Capital Fund L.P. which is ultimately controlled by Mr. Quan Zhou and Mr. Chi Sing Ho. EVEN CLASSIC LIMITED is a BVI business company ultimately controlled by Mr. Chi Sing Ho. Merchant Skill Limited is a BVI business company and wholly owned by Shang Hai Jin Zhi Enterprise Management Consulting Partnership (Limited Partnership) (上海瑾芝企業管理諮詢合夥企業(有限合夥)), the sole general partner of which is Tibet Yu Chi Venture Capital Management Co. Ltd (西藏昱馳創業投資管理有限公司), a limited liability company established in the PRC and owned by Jingbo Wang, Kuiguang Niu and Fei Yang, all of whom are IDG Capital partners.

(7) The general partner of Matrix Partners China II, L.P. and Matrix Partners China II-A, L.P. is Matrix China Management II, L.P. The general partner of Matrix China Management II, L.P. is Matrix China II GP GP, Ltd.

(8) Each of SUM XIII Holdings Limited, VH PDII Holdings Limited and HH AUT-XI Holdings Limited is wholly-owned by Hillhouse Fund IV, L.P., the sole investment manager of which is Hillhouse Investment Management, Ltd.

Save as disclosed above and to the best knowledge of the Directors, as of the date of this annual report, the Directors and the chief executive of the Company are not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be required to be recorded in the register to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the Pre-IPO Share Option Scheme, at no time during the year ended December 31, 2022, was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of the shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company was not listed on the Stock Exchange as of December 31, 2022. Neither the Company nor its subsidiaries purchased, redeemed or sold any of the listed securities of the Company since the Listing Date and up to the date of this annual report.

PRE-IPO SHARE OPTION SCHEME

The Pre-IPO Share Option Scheme was adopted by the Company on December 31, 2020, as amended from time to time. The terms of the Pre-IPO Share Option Scheme are not subject to the provisions of Chapter 17 of the Listing Rules. Summary of major terms of the Pre-IPO Share Option Scheme are as follows:

(i) Purposes of Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to provide a means through which the Group may attract able persons to enter and remain in the employ of the Group and to provide a means whereby employees, directors and consultants of the Group can acquire and maintain share ownership, thereby strengthening their commitment to the welfare of the Group and promoting an identity of interest between shareholders and these employees, directors and consultants.

(ii) Participants of Pre-IPO Share Option Scheme

Persons eligible to participate in the Pre-IPO Share Option Scheme include (i) individual regularly employed by the Company, any parent, subsidiary or affiliate of the Company; (ii) director of the Company, any parent, subsidiary or affiliate of the Company, (iii) consultant or advisor to the Company, any parent, subsidiary or affiliate of the Company, or (iv) exclusive teachers engaged by the Company, any parent, subsidiary or affiliate of the Company (the "**Participants**"). Subject to the provisions of the Pre-IPO Share Option Scheme, the Participants shall be determined by the Board or any person or committee designated by the Board (the "**Administrator**").

(iii) Maximum number of Shares

The maximum aggregate number of shares which may be issued for all the options (the "**Option(s)**") pursuant to the Pre-IPO Share Option Scheme is 218,792,500 Shares.

As of the date of this annual report, outstanding options representing 218,500,500 underlying Shares, representing approximately 10.42% of the total number of Shares in issue as of the date of this annual report, were granted to eligible participants pursuant to the Pre-IPO Share Option Scheme.

After the Listing, no new Options shall be granted, except that the outstanding Options granted shall in all other respects remain in full force and effect.

(iv) Duration

The Pre-IPO Share Option Scheme shall be valid and effective for a period of ten (10) years commencing on the date of adoption (i.e., December 31, 2020) of such scheme; provided, however, that the administration of the Pre-IPO Share Option Scheme shall continue in effect until all matters relating to the Options previously granted have been settled.

As of December 31, 2022, the remaining life of the Pre-IPO Share Option Scheme was eight (8) years.

(v) Exercise of Options

No shares shall be issued pursuant to any exercise of an Option until payment in full of the aggregate exercise price therefor is received by the Company. The Options which have become exercisable may be exercised in whole or in part at any time when approved by the Administrator, accompanied by payment of the exercise price. The exercise price shall be payable in cash (including by certified check or wire transfer) or as determined by the Administrator, in its/his sole discretion, (i) by means of any cashless exercise procedure approved by the Administrator, (ii) any other form of consideration approved by the Administrator and permitted by applicable law or (iii) any combination of the foregoing.

Without limiting the foregoing, the Options may not be exercised until all registrations, consents, approvals, filings or waivers required under applicable laws, including the laws and regulations of the PRC, are duly obtained.

(vi) Vesting

The Options granted to each Participant shall vest and become exercisable such time or times and subject to such terms and conditions as shall be determined by the Administrator and reflected in the share option agreement; provided, however, that notwithstanding the vesting schedule in each share option agreement, the Administrator may in its sole discretion accelerate the exercisability of any Option to the extent in compliance with the shareholders agreement of the Company (as amended and restated), which acceleration shall not affect the terms and conditions of any such Option other than with respect to exercisability.

The Company had not granted further share options under the Pre-IPO Share Option Scheme after the Listing. For more information on the Pre-IPO Share Option Scheme, please refer to "Statutory and General Information — D. Pre-IPO Share Option Scheme" in Appendix IV to the Prospectus.

Details of the outstanding options granted under the Pre-IPO Share Option Scheme as of December 31, 2022 are set out below.

Name	Role	Date of Grant	Vesting period[(1)]	Exercise price	Number of Shares under the outstanding options granted as at December 31, 2022[(2)]
Directors					
WEI Liang	Executive Director, president and chief technology officer	October 1, 2021 to October 25, 2022	Nil	US$0.00001 per Share	27,500,000
Senior management					
RAN Dong	Chief financial officer and vice president	September 14, 2020 to October 25, 2022	0 to 4 years	US$0.00001 per Share	9,241,250
SHENG Haiyan	Vice president	April 7, 2016 to October 25, 2022	3 to 4 years	US$0.00001 per Share	10,800,000
LI Yan	Vice president	March 7, 2018 to October 25, 2022	0 to 4 years	US$0.00001 per Share	14,490,000
Other grantees in aggregate	—	April 7, 2016 to October 25, 2022	0 to 4 years	US$0.00001 per Share	156,469,250
Total	**1,081 grantees**				**218,500,500**

Notes:

(1) The exercise period of the options under the Pre-IPO Share Option Scheme commences from the vesting commencement date of the relevant options and ends tenth anniversary of the grant date, subject to the terms of the Pre-IPO Share Option Scheme and the share option agreement signed by the grantee. No consideration was paid by the grantees for the outstanding options granted under the Pre-IPO Share Option Scheme.

(2) Including the grants under the previous share incentive plans of the Group, which have been entirely replaced by the Pre-IPO Share Options Scheme.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Shares of the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on January 9, 2023 (the "**Listing Date**"), whereby 20,000,000 new Shares were issued at the offer price of HK$9.90 each by the Company. The net proceeds from the Global Offering received by the Company, after deduction of the underwriting fees and other related expenses payable by the Company, was approximately HK$113.2 million.

There has been no change in the intended use of net proceeds as previously disclosed in the Prospectus, and the expected timeline for the use of net proceeds will be subject to the business development of the Company. Since the Listing Date and up to the date of this annual report, the Group has not utilized any portion of the net proceeds, and will utilize the net proceeds in accordance with the intended purposes as stated in the Prospectus. Please refer to "Future Plans and Use of Proceeds" in the Prospectus for details.

LEGAL PROCEEDINGS AND COMPLIANCE

The Group is subject to legal proceedings, investigations and claims arising in the ordinary course of our business from time to time. During the Reporting Period, the Group had not been involved in any litigation or arbitration proceedings pending or, to its knowledge, threatened against the Group that could have a material adverse effect on the Group's business, results of operations or financial condition.

The Group is subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in China. During the Reporting Period, to the best knowledge of the Board and the Company, the Group did not commit any material non-compliance of the laws and regulations, or experience any non-compliance incident, which taken as a whole, is likely to have a material adverse effect on the Group's business, results of operations or financial condition.

The Group offers classroom-based tutoring courses through classroom facilities set up by a network of local operational hubs. The Group generally operates its classroom-based tutoring services on leased properties, which allows the Group to swiftly execute and adjust its geographical expansion plan in response to changing market conditions and demands. The Group also allows students to elect to take courses at any convenient location of their choosing. For certain leased properties that function as its offline offices and/or classroom facilities, the Group has carried out certain decoration work to meet the needs of its business operations. According to the relevant PRC laws and regulations, such decoration work fall within the scope of construction work. If the investment amount of such construction project exceeds RMB300,000 and its gross floor area is more than 300 square meters, the records of the fire safety design and the completion inspection (the "**Fire Safety Filing**") shall be filed to the competent fire safety authorities after the decoration work obtains the construction permit and passes the completion inspection. The Group used to commence operations on certain leased properties that had not complete the required Fire Safety Filing. The Group has suspended the usage of all such leased properties prior to the completion of the Global Offering. The Group has undertaken that, it will report the status of completing the Fire Safety Filling and the change of status (such as permanent closure, relocation or re-opening) for the relevant leased properties that had been suspended in the interim and annual reports after the Listing.

For the 11 suspended leased properties as disclosed in the Prospectus, as of the date of this annual report, the Group (1) has terminated the leases for eight properties, and (2) continues to suspend the usage of the remaining three properties, with one property in the process of termination and the other two properties in the process of Fire Safety Filing application. Since the Listing Date and up to the date of this annual report, the Group has no newly leased property that would require the Fire Safety Filing. As of the date of this annual report, all of the Group's leased properties in use are in compliance with the applicable fire safety laws.

ANNUAL GENERAL MEETING

The AGM will be held on Wednesday, June 14, 2023. A notice convening the AGM will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.fenbi.com), and will be dispatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

FINAL DIVIDEND

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2022 (2021: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from Friday, June 9, 2023 to Wednesday, June 14, 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, all share transfer documents accompanied by the corresponding share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on Thursday, June 8, 2023.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing Shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's listed securities. If any of the Shareholders is unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares, he or she is advised to consult an expert.

INDEMNITY OF DIRECTORS

Under the Articles of Association, every Director or other officers of the Company acting in relation to any of the affairs of the Company shall be entitled to be indemnified against all actions, costs, charges, losses, damages and expenses which he may incur or sustain in or about the execution of his duties in his office. The Company has arranged appropriate insurance cover in respect of legal action against its Directors and officers.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

AUDITOR

PricewaterhouseCoopers was appointed as the auditor during the Reporting Period. The consolidated financial statements of the Group for the year ended December 31, 2022 have been audited by PricewaterhouseCoopers.

PricewaterhouseCoopers shall retire at the forthcoming annual general meeting and, being eligible, will offer itself for re-appointment. A resolution for the re appointment of PricewaterhouseCoopers as the auditors of the Company will be proposed at the AGM.

DONATION

During the year ended December 31, 2022, the Group made charitable donations of RMB0.4 million.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Detailed information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report in this annual report.

EVENTS AFTER THE REPORTING PERIOD

Save for the subsequent events disclosed in note 16 to the consolidated financial information set forth in this annual report, there has been no other significant event since the end of the Reporting Period and up to the date of this annual report that is required to be disclosed by the Company.

APPRECIATION

We would like to express our sincere gratitude to the Shareholders for their continuous support, our customers, suppliers and business partners for their trust in the Company and our staff and management team for their diligence, dedication, loyalty and integrity.

By order of the Board of Directors
Fenbi Ltd.

ZHANG Xiaolong
Chairman

Hong Kong
March 28, 2023

Corporate Governance Report

The Board is pleased to present the Corporate Governance Report contained in the Company's annual report for the year ended December 31, 2022.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance. The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders and corporate value, formulate its business strategies and policies, and enhance its transparency and accountability. The Company has adopted the code provisions of the CG Code as set out in Part 2 of Appendix 14 to the Listing Rules as its own code of corporate governance, and the CG Code has been applicable to the Company with effect from the Listing Date.

As the Company's shares in issue were not yet listed on the Stock Exchange during the year ended December 31, 2022, the CG Code as contained in Appendix 14 to the Listing Rules was not applicable to the Company during the Reporting Period. Since the Listing Date and up to the date of this report, the Company has complied with all the applicable code provisions under the CG Code with the exception of code provision C.2.1, which requires the roles of chairman and chief executive to be held by different individuals as stipulated in "Chairman and Chief Executive Officer" in this report. The Company will periodically review on its corporate governance policies and will propose any amendment, if necessary, to ensure compliance with the CG Code from time to time.

CULTURES AND VALUES

A healthy corporate culture across the Group is integral to attain its vision and strategy. The Board and the management have played and will continue to play a proactive role in setting of the Group's strategic goals, priorities and initiatives undertaken to motivate staff to achieve business and financial targets and to create values to the stakeholders through sustainable growth and continuous development of the Group.

It is the Board's role to foster a corporate culture with the following core principles and to ensure they are embedded throughout the Company's vision, mission, policies and business strategies.

Integrity and code of conduct

The Group strives to maintain high standards of business ethics and corporate governance across all our activities and operations. The Directors, management and staff are all required to act lawfully, ethically and responsibly, and the required standards and norms are explicitly set out in the training materials for all new staff and embedded in various policies such as the Group's employee handbook (including therein the Group's code of conduct), the anti-corruption policy and the whistleblowing policy of the Group. Trainings are conducted from time to time to reinforce the required standards in respect of ethics and integrity.

Commitment

The Group has consistently adhered to fundamental business philosophy and mindset of "user-oriented and technology-driven", striving to create more value for our shareholders and society as a whole. These principles are reflected in every aspect of the Group's culture, with employees encouraged to go above and beyond to deliver exceptional value and experiences to customers.

The Group will continuously review and adjust, if necessary, its business strategies and keep track of the changing market conditions to ensure prompt and proactive measures will be taken to respond to the changes and meet the market needs to foster the sustainability of the Group.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day to day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the Nomination Committee and the Remuneration Committee. The Board has delegated to these Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

The Company has arranged appropriate insurance coverage in respect of liability arising from legal action against the Directors, and will conduct annual review on such insurance coverage.

Board Composition

The current composition of the Board is as follows:

Executive Directors

Mr. ZHANG Xiaolong *(Chairman and Chief Executive Officer)*
Mr. WEI Liang

Non-executive Directors

Mr. LI Yong
Mr. LI Xin

Independent Non-executive Directors

Mr. QIU Dongxiao Larry
Mr. YUEN Kai Yiu Kelvin
Ms. YUAN Jia

The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

From the Listing Date to the date of this annual report, the Board has met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules, which relates to the appointment of independent non-executive Directors representing one third of the Board. Each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules by written confirmation and the Company considers each of them to be independent.

Save as disclosed in the biographies of the Directors as set out in the section headed "Directors and Senior Management" of this annual report, none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Directors or chief executive.

BOARD DIVERSITY POLICY

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a board diversity policy (the "**Board Diversity Policy**") to ensure that the Company will, when determining the composition of the Board, consider Board diversity in terms of, among other things, gender, skills, age, professional experience, knowledge, culture, education background and length of service. All Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board.

As of the date of this annual report, the diversity profile of the Board is analyzed as follows: The Directors have a balanced mix of experiences, including overall management, business development, information technology, and finance experiences. The Board has also maintained a gender diversity with one female Director and seven male Directors. Furthermore, the age of the Directors ranges from 38 years old to 61 years old. The education background of the Directors includes philosophy, economics, mathematics, computer science and business administration to law, with degrees awarded by education institutions in the PRC, the United States, Canada and Australia.

At present, the Nomination Committee considered that the Board is sufficiently diverse. The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain continuous compliance by the Company with the board diversity requirement under the Listing Rules, including the gender diversity.

GENDER DIVERSITY

The Company has been committed to the gender diversity of all employees (including senior management), and strives to achieve gender equality among the employees. As of December 31, 2022, the total number of employees (including senior management) in the Company was 7,440, of which approximately 28.6% were male and approximately 71.4% were female; and female senior management members represented approximately 40.0% of the senior management of the Company. The Company will continue to take steps to promote gender diversity at all levels of the Group, including but not limited to the Board and the senior management levels.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

All newly appointed Directors would be provided with necessary induction and information to ensure that they have a proper understanding of the Company's operations and businesses as well as their responsibilities under relevant statutes, laws, rules and regulations.

In accordance with code provision C.1.4 of the CG Code with regards to continuous professional development, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally facilitated briefings for Directors will be arranged and reading material on relevant topics will be provided to Directors where appropriate. The Company also arranges regular trainings to provide the Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

The Company encourages continuous professional development training for all the Directors to develop and refresh their knowledge and skills. Before the Listing, the Company organized a training session conducted by the Hong Kong legal advisors of the Company and attended by all the Directors. The training session covered a wide range of relevant topics including Directors' duties and responsibilities, corporate governance and Listing Rules requirement

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. The roles of the Chairman and Chief Executive Officer of the Company are held by Mr. ZHANG Xiaolong. With extensive experience in the non-formal vocational education and training industry, Mr. Zhang is responsible for the overall strategic planning and business development and operation, as well as overall technological and curriculum development of the Group and is instrumental to our growth and business expansion. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group and ensures consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The balance of power and authority is not impaired and is ensured by the operation of the senior management and the Board, which comprises experienced individuals. In light of the above, the Board considers that the deviation from code provision C.2.1 of the CG Code is appropriate in the circumstances of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of our executive Directors has entered into a service contract with our Company on December 20, 2022 for an initial term of three years commencing from the date of such service contract.

Each of the non-executive Directors has entered into an appointment letter with the Company on December 20, 2022 for an initial term of three years commencing from the date of such letter of appointment.

Each of the independent non-executive Directors has entered into an appointment letter with the Company on December 20, 2022 for an initial term of three years commencing from the Listing Date.

The Board shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until first annual general meeting of the Company after his appointment and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

At every annual general meeting of the Company one third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Board has delegated certain of its responsibilities and authority for selection and nomination of Directors to the Nomination Committee. The Nomination Committee is responsible for reviewing the Board's composition, and for making recommendations to the Board on the appointment, re-election and succession planning of Directors, and the Board will determine the relevant matters after taking into account of the recommendations.

NOMINATION POLICY

The Company has adopted a director nomination policy which is contained in the terms of reference of the Nomination Committee that sets out the selection criteria and process in relation to nomination of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The director nomination policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to gender, age, cultural and educational background, professional experience or diversity needed in the future, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Nomination Committee shall: (i) use open advertising or the services of external advisors to facilitate the search; (ii) consider candidates from a wide range of backgrounds; and (iii) consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position.

The Nomination Committee will review the director nomination policy, as appropriate, to ensure its effectiveness.

BOARD MEETINGS

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals.

Notices of no less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board meetings and Board committee meetings, reasonable notice is generally given by the Company. The agenda and accompanying Board papers are dispatched at least three days before the Board meetings or Board Committee meetings to ensure that the Directors have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or the Board committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting. Minutes of meetings shall be kept by the joint company secretaries of the Company with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board committee meetings are recorded in sufficient detail on the matters considered by the Board and the Board committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board committee meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held. The minutes of the Board meetings are open for inspection by all Directors.

As the shares of the Company were not listed on the Stock Exchange until the Listing Date, the relevant standards were not applicable to the Company during the year ended December 31, 2022.

A summary of the attendance records of the Directors at the meetings of the Board, the respective Board committees and the general meeting held during the period from the Listing Date to the date of this annual report is set out below:

	Attendance/Number of Meeting(s)				
Name of Directors	Board meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	General meeting
Mr. ZHANG Xiaolong	1/1	–	1/1	1/1	0/0
Mr. WEI Liang	1/1	–	1/1	1/1	0/0
Mr. LI Yong	1/1	–	–	–	0/0
Mr. LI Xin	1/1	–	–	–	0/0
Mr. LI Zhaohui *(resigned on March 8, 2023)*	0/0	–	–	–	0/0
Mr. QIU Dongxiao Larry	1/1	1/1	1/1	1/1	0/0
Mr. YUEN Kai Yiu Kelvin	1/1	1/1	1/1	1/1	0/0
Ms. YUAN Jia	1/1	1/1	1/1	1/1	0/0

COMPLIANCE WITH THE MODEL CODE

As the shares of the Company were not yet listed on the Stock Exchange as of December 31, 2022, the Model Code was not applicable to the Company during the year ended December 31, 2022. The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors, and the Model Code has been applicable to the Company with effect from the Listing Date. Having made specific enquiries of all Directors, each of the Directors has confirmed that he or she has complied with the requirements as set out in the Model Code since the Listing Date and up to the date of this annual report.

DELEGATION BY THE BOARD

The Board reserves for its decision on all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense. Directors are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in code provision A.2.1 of the CG Code. The Board confirmed that corporate governance should be the collective responsibility of the Directors, which includes:

(a) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(b) to review and monitor the training and continuous professional development of the Directors and senior management;

(c) to develop, review and monitor the codes of conduct and compliance manuals applicable to employees and the Directors;

(d) to develop and review the Company's corporate governance policies and practices, make recommendations and report on related issues to the Board; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

BOARD COMMITTEES

Our Company has established three committees under the Board pursuant to the corporate governance practice requirements under the Listing Rules, including the Audit Committee, Remuneration Committee and Nomination Committee.

Audit Committee

At the date of this annual report, the Audit Committee comprises three independent non-executive Directors, namely, Mr. YUEN Kai Yiu Kelvin, Mr. QIU Dongxiao Larry and Ms. YUAN Jia, with Mr. YUEN Kai Yiu Kelvin being the chairman of the committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company, oversee the audit process, review and oversee the existing and potential risks of our Group and perform other duties and responsibilities as assigned by our Board.

The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

As the Company was only listed on the Stock Exchange on January 9, 2023, no Audit Committee meeting was held during the year ended December 31, 2022. However, subsequent to the Listing Date and up to the date of this annual report, the Audit Committee held one meeting to discuss and consider the following:(1) reviewing the annual financial statements, annual results announcement and annual report of the Group for the year ended December 31, 2022; (2) reviewed the Group's internal control system and related matters; (3) reviewed continuing connected transactions of the Group; (4) reviewed Contractual Arrangements; (5) reviewed corruption and bribery risk assessment results and policies of the Group; and (6) considered and made recommendations on the re-appointment of the external auditors of the Group, and the term of engagement.

Nomination Committee

At the date of this annual report, the Nomination Committee consists of five Directors, namely Mr. ZHANG Xiaolong, Mr. WEI Liang, Mr. QIU Dongxiao Larry, Mr. YUEN Kai Yiu Kelvin and Ms. YUAN Jia, with Mr. ZHANG Xiaolong being the chairman of the committee. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment of Directors of our Company and oversee the implementation of Board diversity policy.

In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board in accordance with the Board Diversity Policy adopted by the Company. Diversity of the Board will be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a Director. The recommendations of the Nomination Committee will then be put to the Board for decision.

The terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

As the Company was only listed on the Stock Exchange on January 9, 2023, no Nomination Committee meeting was held during the year ended December 31, 2022. However, subsequent to the Listing Date and up to the date of this annual report, the Nomination Committee has held one meeting for reviewing the independence of the independent non-executive Directors, considering the qualifications, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background and length of service, of the retiring Directors standing for re-election at the forthcoming annual general meeting, reviewing the structure, size and composition of the Board and reviewing the board diversity policy.

Remuneration Committee

At the date of this annual report, the Remuneration Committee consists of five Directors, namely Mr. QIU Dongxiao Larry, Mr. ZHANG Xiaolong, Mr. WEI Liang, Mr. YUEN Kai Yiu Kelvin and Ms. YUAN Jia, with Mr. QIU Dongxiao Larry being the chairman of the committee. The primary duties of the Remuneration Committee are to establish, review and provide advice to our Board on the structure of remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning remuneration, determine the terms of the specific remuneration package for each executive Director and senior management and review and approve performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time.

The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

As the Company was only listed on the Stock Exchange on January 9, 2023, no Remuneration Committee meeting was held during the year ended December 31, 2022. However, subsequent to the Listing Date and up to the date of this annual report, the Remuneration Committee has held one meeting for reviewing the remuneration of the Directors and senior management and the performance of them.

Remuneration of Directors and Senior Management

The remuneration of the Directors of the Company during the year ended December 31, 2022 is set out in Note 34 to the consolidated financial statements.

The remuneration of senior management of the Company, whose biographies are set out on pages 17 to 18 of this annual report, for the year ended December 31, 2022 falls under the following bands:

Band of remuneration (in HK$)	Number of individuals
0–1,000,000	—
1,000,001 to 1,500,000	—
1,500,001 to 2,000,000	1
over 2,000,000	4

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibilities for the preparation of the financial statements for the year ended December 31, 2022, which gives a true and fair view of the state of affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided the Board with such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the auditor regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report of this annual report.

DIVIDEND POLICY

The Company has adopted a dividend policy. The determination to pay dividends will be made at the discretion of the Directors, subject to the Listing Rules, 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 the Directors may consider relevant. The 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 the Company being unable to pay its debts as they fall due in the ordinary course of business. The Company does not have a pre-determined or fixed dividend payout ratio and will continue to re-evaluate our dividend policy in light of our financial condition and the prevailing economic environment.

The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific periods.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility to ensure a sound and effective risk management and internal control systems, maintaining timely and effective communication with the management in terms of the progress and achievements of relevant works. Under this framework, the management is primarily responsible for the design, implementation, and maintenance of internal controls, while the Board and the Audit Committee oversee the actions of the management and monitor the effectiveness of the controls that have been put in place.

The risk management and internal control systems are designed to achieve business objectives and safeguard assets against unauthorized use or disposition; to ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and to ensure compliance with the Listing Rules, the relevant legislations and regulations. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance that there will be no material misrepresentation or losses.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risk of failure to achieve the Company's strategic objectives, as well as establishing and maintaining effective risk management and internal control systems. The Audit Committee assists the Board in leading the management team to oversee the design, implementation and monitoring of the risk management and internal control systems.

The Company has developed system of internal control and risk management for reviewing and maintaining an adequate internal control system to safeguard the interests of the Shareholders and the assets of the Company. The Company has established a separate internal audit department, which is responsible for reviewing the Group's internal control and risk management system and supporting the Board in assessing the effectiveness of such system annually.

The Company has established an information disclosure policy and regularly reminded the directors and employees of due compliance with all policies regarding inside information. To ensure adequate attention to whistleblowing, the Company has established a reporting mechanism to handle and discuss internal whistleblowing of financial, operational, internal control and fraud issues, where major internal control deficiencies or whistle blowing issues will be submitted to the Audit Committee.

The Board, as supported by the Audit Committee as well as the management, has reviewed the report from the management and findings from the internal audit, and reviewed the risk management and internal control systems, including the financial, operational and compliance controls. The review process comprises, among other things, meetings with management of business groups, internal audit team, legal, personnel and the external auditors, reviewing the relevant work reports and information of key performance indicators, and discussing the major risks with the senior management of the Company. The annual review also covered areas on the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions.

The Board considered the risk management and internal control systems of the Company during the Reporting Period were effective and adequate.

In addition, the Board believes that the Company's accounting and financial reporting functions have been performed by staff with the appropriate qualifications and experience and that such staff receives appropriate and sufficient training and development. Based on the work report from the Audit Committee, the Board also believes that the Company's internal audit function is adequate with sufficient resources and budget. The relevant staff has appropriate qualifications and experience, and receives sufficient training and development.

AUDITOR'S REMUNERATION

The auditor's approximate remuneration in respect of the audit and non audit services provided to the Company for the year ended December 31, 2022 is as follows:

Type of services	Amount (RMB'000)
Audit services	4,685
Non-audit services:	
— Tax advisory	917
Total	**5,602**

Note: The services do not include those rendered by the auditor as reporting accountants in connection with the initial public offering of the Company during the year.

JOINT COMPANY SECRETARIES

Ms. WANG Tao and Mr. LEE Chung Shing have been appointed as our joint company secretaries. Biographical information of Ms. WANG Tao and Mr. LEE Chung Shing is set out in the section headed "Directors and Senior Management" in this annual report. Mr. LEE Chung Shing is an assistant vice president in the Governance Services Department of Computershare Hong Kong Investor Services Limited, and assists Ms. WANG Tao in company secretarial affairs. The primary corporate contact person of Mr. LEE Chung Shing at the Company is Ms. WANG Tao, one of the joint company secretaries of the Company.

As the Shares was not listed until the Listing Date, Ms. WANG Tao and Mr. LEE Chung Shing will undertake not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules for the year of 2023.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance, and strategies. The Company also recognizes the importance of timely and non selective disclosure of information on the Company for the Shareholders and investors to make informed investment decisions.

The annual general meeting of the Company provides opportunity for Shareholders to communicate directly with the Directors. The chairman of the Company and the chairmen of the Board committees of the Company will attend the annual general meeting to answer Shareholders' questions. The auditor will also attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies, and auditor's independence.

To promote effective communication and to build an inter-relationship and communication channel between the Company and the Shareholders, the Company adopts a Shareholders' communication policy and maintains a website at www.fenbi.com, where the up to date information on the Company's business operations and developments, financial information, corporate governance practices, and other information are available for public access. The shareholders' communication policy sets out a number of ways to ensure effective and efficient communication with shareholders is achieved, including but not limited to our responses to shareholders' enquiries, corporate communications (in both English and Chinese, to facilitate shareholders' understanding), posting of relevant information on the Company's website, shareholders' meetings and investment market communications.

SHAREHOLDERS' RIGHTS

To safeguard the Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

CONVENING AN EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

Any one or more Shareholder(s) of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, to require an extraordinary general meeting to be convened by the Company specifying the objects of the meeting and signed by the requisitionist(s); and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions in the Articles of Association or the Cayman Companies Act for Shareholders to propose new resolutions at general meetings. Shareholders who wish to propose a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

ENQUIRIES TO THE BOARD

Shareholders who intend to put forward their enquiries about the Company to the Board may send their enquiries to the Office of the Board at the Company's headquarters at 1–6/F, Building 103, No. 10 Courtyard, Jiuxianqiao North Road, Chaoyang District, Beijing, PRC or through email at ir@fenbi.com. Shareholders may also make enquiries with the Board at the general meetings of the Company.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Articles of Association of the Company has been amended and restated with effect from the Listing Date. There was no change in the Articles of Association from Listing Date and up to the date of this annual report.

Environmental, Social and Governance Report

ABOUT THE ESG REPORT

Fenbi Ltd. (the "**Company**") and its subsidiaries (the "**Group**" or "**We**") hereby release the Environmental, Social, and Governance (ESG) 2022 report (the "**ESG Report**") to present our ESG strategy, philosophy and practices.

ABOUT THIS REPORT

The Group is a leading non-formal vocational education and training ("**VET**") service provider in China, dedicated to making high-quality non-formal VET services accessible through technology and innovation. We uphold our "People Oriented" core values and are fully committed to safeguarding the environment, being socially responsible, and maintaining stringent and impartial corporate governance and internal control in our daily operations. This report aims to disclose the Group's commitments, approach and, performance in sustainable development to its stakeholders.

REPORTING SCOPE AND PERIOD

Unless otherwise stated, the content of the Report mainly covers the ESG performance and related information of Fenbi Technology Ltd and its subsidiaries ("**Fenbi Technology**"), where the Group mainly operates the core businesses from January 1, 2022 to December 31, 2022 (the "**Period** ").

REPORTING STANDARDS

The Report has been prepared in accordance with the disclosure requirements of the ESG Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities (the "**Listing Rules**") issued by the Stock Exchange of Hong Kong Limited (the "**HKEx**").

This Report has been prepared in compliance with the mandatory disclosure requirements and the "Comply or explain" provisions set out in the Environmental, Social and Governance Reporting Guide of the Stock Exchange, and is based on the reporting principles of "Materiality", "Quantitative", "Balance" and "Consistency".

- **Materiality**

  The Group compiled the Report with a focus on material issues by reviewing the 2022 material issues assessment results for major stakeholders through which material issues for the Period were identified. The results of the material issues have been confirmed by the Board in conjunction with the Report.

- **Quantitative**

  Where practicable, the Group disclosed information on the standards, methodologies, assumptions, and/or calculation tools used for the quantitative information, and the source of conversion factors used.

- **Balance**

  The Report provides an unbiased picture of the environmental, social, and governance performance of the Group during the Year avoiding those selections, omissions, or presentation formats that may inappropriately influence the decision or judgment of the readers.

- **Consistency**

  The Report discloses the statistical methodology for environmental and socially relevant data and explains the changes in calculation methods so that the data can be compared meaningfully in the future.

SOURCES OF INFORMATION

All information and cases contained in the Report are sourced from publicly available information, internal documents, and relevant statistics of the Group.

REPORT APPROVAL

The board of directors of the Company confirmed that it bears full responsibility for the Company's environmental, social, and governance strategies and reporting, and has reviewed and approved this Report.

ACCESS TO THE REPORT

The Report has been prepared in both English and Chinese and is available on the Group's website at www.Fenbi.com and the website of HKEx. If there is any inconsistency, please refer to the English version.

STAKEHOLDER COMMUNICATION

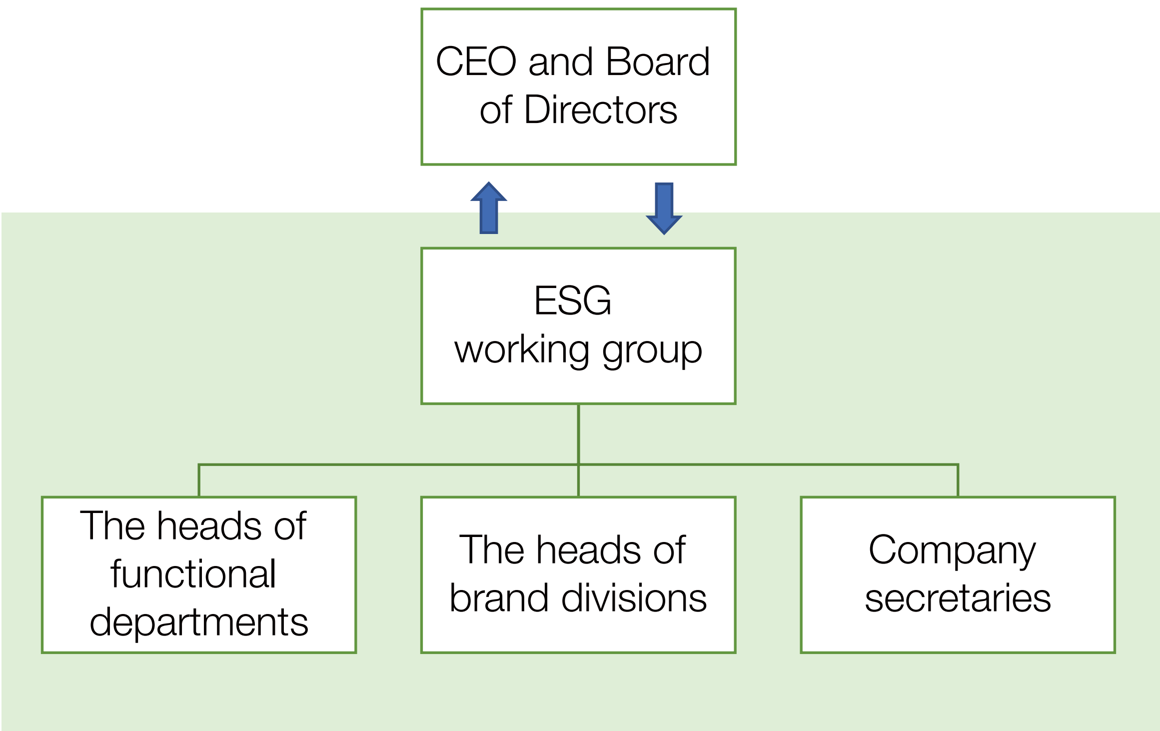
Our main stakeholders include government and regulatory authorities, shareholders, students, teachers and employees, suppliers, media, community residents, and the public. We attach great importance to daily communication with stakeholders, and have established a sound stakeholder communication mechanism through regular and continuous communication in various channels, in hope of soliciting and responding to their expectations and concerns. We timely disclose our information on production, operation, and development strategy to enhance stakeholders' understanding and recognition of the Company.

Comments and suggestions from stakeholders can help the Group to build a more detailed and robust sustainability strategy. If you have any questions or suggestions regarding this report or other ESG matters, please share with us your views via email to ir@Fenbi.com.hk.

ESG GOVERNANCE STRUCTURE

Fenbi Technology strives to achieve sustainable, stable, and healthy development through solid corporate governance and internal control stricture. We also recognise environmental protection as an important social responsibility of our Group. We adhere to the ESG management direction that targets to (i) monitor the environmental impact of our business operations, (ii) mitigate climate-related risks such as global warming; and (iii) ensure that our operations are in compliance with the relevant environmental requirements pursuant to the PRC laws and regulations.

Our Board is principally responsible for overseeing the formulation and reporting of our ESG direction and strategies, determining the ESG-related risks, and monitoring and reviewing our ESG performances. Our ESG task force reports to the Board regularly and the ESG reports are reviewed by the Board on an annual basis. Our ESG strategies would be adjusted as needed to align with the long-term business strategy of the Group. Furthermore, it also closely follows the latest ESG-related laws and regulations and correspondingly updates our ESG measures to ensure that we comply with the latest regulatory laws and regulations. We establish the ESG working group to support our Board in formulating and implementing the overall objectives, developing and refining sustainability strategies and policies applicable across the Group, and assisting the Board in guiding and monitoring the formulation and implementation of ESG-related strategies to achieve sustainable development goals. The ESG working group reports to the Board and assesses the Group's sustainable development strategies, targets, and performance regularly. The working group has also established a risk management system to constantly sort out and examine the risks faced in the course of its own business operations, and adopts corresponding management and control measures according to the consequences of different risks. The working group has implemented measures to mitigate the impacts in due course to meet its commitment to sustainable and responsible operations. The members of the ESG working group include the heads of various functional departments and the heads of each brand division.



STATEMENT OF THE BOARD

The Group understands the importance of good corporate governance, including the governance of ESG-related matters that are critical to sustainable development. During the Year, the Group has been striving to integrate the concept of sustainable development with the Company's overall strategy, policies and business plans, to further guide the Group in its pursuit of value chain excellence while achieving its sustainability vision.

IDENTIFICATION, MANAGEMENT, AND ASSESSMENT APPROACHES

Our board will adopt the following approaches to identify, assess and manage material ESG issues:

Identification: Our Directors discuss with key stakeholders, including our major customers, major suppliers, management team and employees, the ESG issues and collect their views and opinions on our ESG measures and practices, which, help us better identify and prioritise the ESG issues and risks inherent in our business operations and formulate effective ESG measures to mitigate those risks. Our Directors believe that this open dialogue with stakeholders plays a crucial role in maintaining our business sustainability.

Management: Attributed to the above efforts, we have implemented ESG measures that provide guidelines for managing our ESG issues. In this connection, our Board will review ESG issues arising from our business operations including climate-related issues when reviewing our ESG measures, major plans of action, risk management policies, annual budget in implementing these ESG measures, and our business plans as well as setting our performance objectives.

Assessment: Apart from assessing the performance of our ESG measures through discussion among our Directors and our stakeholders, our Board would engage Independent Third Party inspection and assessment institutions to identify and assess our level of compliance in respect to environmental protection covering emission of wastewater, noise control, and air pollution control and climate changes.

Environmental:	
1	Environmental and legal compliance
2	Emissions management
3	Greenhouse gas emission
4	Hazardous waste management
5	Non-hazardous waste management
6	Energy consumption
7	Use of water resources
8	Wastewater discharge
9	Packaging of finished products
10	Expenditure on environmental protection
11	Major climate-related policies
Social:	
12	Employee welfare
13	Talent management
14	Occupational health and safety
15	Development and training
16	Employee diversity and equal opportunities
17	Management of child labor and forced labor
18	Community participation
19	Community charity investment
20	Supply chain management
21	Customer satisfaction
Governance:	
22	Intellectual property rights
23	Product quality management
24	Data security and customer privacy management
25	Management of anti-competitive behaviors
26	Anti-corruption
27	Internet security

ESG POLICY

We have formulated an ESG policy (the "**ESG Policy**") which outlines, among others, (a) the appropriate risk governance on ESG matters; (b) ESG strategy formation procedures; (c) ESG risk management and monitoring; and (d) identification of key performance indicators ("**KPIs**") and the relevant measurements. The ESG Policy will be formulated in accordance with the standards of Appendix 27 ("**ESG Reporting Guide**") to the Listing Rules and be reviewed on an annual basis to ensure that it remains relevant and appropriate to the needs of our operation.

RISK MANAGEMENT AND INTERNAL CONTROLS

The effectiveness of risk management is critical to the long-term growth and sustainability of the Group's business. The Board ensures that the Group has an appropriate and effective ESG risk management and internal control system in place, while the ESG working Group is responsible for risk management activities. ESG risks are embedded in the Group's risk management framework and internal control systems.

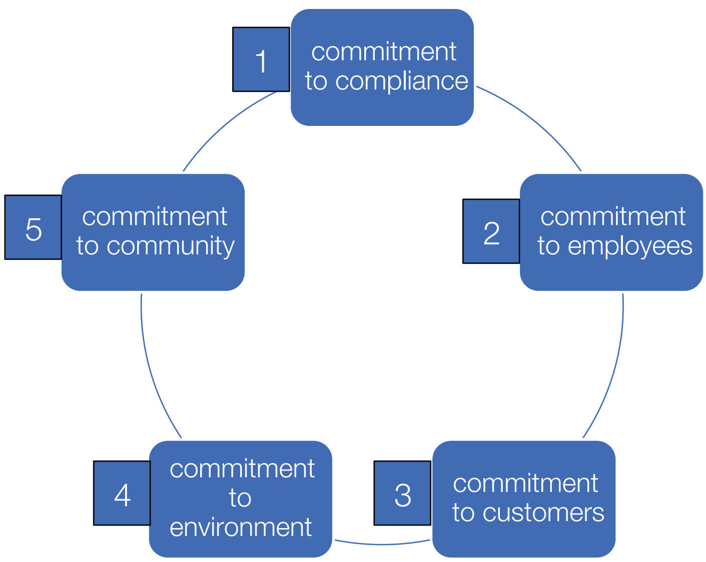
To manage ESG risks in operations, including those related to natural resources, climate change, employees, health, and compliance, various controls, and operational procedures are in place to mitigate their associated impacts. All significant risk management measures are regularly reviewed to ensure their continued effectiveness and approved by the Board. In the future, the ESG working group will target to identify and analyze ESG risks and opportunities and related impacts, and continue to help improve appropriate and effective ESG risk management and internal control systems.

TARGET MANAGEMENT

The Board is responsible for approving the Group's ESG-related targets and reviewing the progress of their achievement; the ESG working group is responsible for formulating the relevant targets and work plans, overseeing the progress of implementation, and reviewing their effectiveness. In the future, the Group will aim to promote its experience and set up environmental-related targets in more campuses to promote ecological protection.

SUSTAINABILITY STRATEGY

The Group strives to achieve sustainable development and is committed to communicating with all stakeholders honestly, openly and responsibly, and incorporating ESG considerations into business development and daily operations. The Group is dedicated to striking a balance among good corporate governance, environmental management and corporate social responsibility, so as to create value for all stakeholders including shareholders, investors, customers, suppliers, employees, government and the community. Our sustainable development strategy is based on five strategic pillars:



SUSTAINABLE STAKEHOLDER ENGAGEMENT

To more effectively fulfill its corporate social responsibility, the Group has worked closely on the sustainable development front, with stakeholders, including investors/shareholders, teachers/employees, suppliers/partners, students, government and regulatory authorities, communities and media. The Group has engaged with stakeholders through different channels, to understand stakeholders' expectations and opinions of the Group, ensure that its business and sustainability strategies are aligned with the views and expectations of its stakeholders and also guide the Group in identifying significant ESG issues and managing related risks and opportunities.

Stakeholder	Main Concerns/Expectations	Major Communication Channels
Investors/shareholders	➢ Business performance ➢ Transparent and timely updated information ➢ Compliance operation ➢ Risk management	➢ Annual general meeting and extraordinary general meetings ➢ Report disclosure ➢ Investor meetings ➢ Press releases ➢ Announcements ➢ Interim and annual reports ➢ Company website
Teachers/employees	➢ Rights and interests ➢ Compensation and benefits ➢ Development and training ➢ Health and safety ➢ Labour standards ➢ Clear career path	➢ Emails, memorandums, and notices ➢ Employee feedback ➢ Training programmes ➢ Team building activities
Suppliers/partners	➢ Business performance ➢ Supply chain management ➢ Anti-corruption	➢ Supplier evaluation mechanism ➢ Supplier meetings ➢ On-site research and investigation
Government and regulatory authorities	➢ Compliance operation ➢ Taxation ➢ Emissions management ➢ Use of resources ➢ Employment ➢ Anti-corruption	➢ Policy consultation ➢ Site visit ➢ Meetings and discussions with government authorities ➢ Report disclosure ➢ Daily communication
Students	➢ Teaching quality transparent and reliable information ➢ Employment support	➢ Satisfaction survey ➢ Job placement and entrepreneurship guidance and support ➢ Employment return visit ➢ Service brochures ➢ Dialogue

Stakeholder	Main Concerns/Expectations	Major Communication Channels
Communities	➢ Community investment ➢ Emissions ➢ Use of resources ➢ Environment and natural resources	➢ Site visit ➢ Volunteer community work ➢ Social media ➢ Public welfare activities
Media	➢ Compliance operation ➢ Teaching quality ➢ Labour standards ➢ Environment and natural resources	➢ Social media ➢ Press conference ➢ Press release ➢ Announcements ➢ Interviews

COMMITMENT TO ENVIRONMENT

We regard environment protection as an important corporate responsibility, and are committed to promoting corporate social responsibility and sustainable development as well as integrating it into all major aspects of our business operations.

The electricity is the principal source of energy consumption in our operations. The printing process of our text books and learning materials may generate noise, solid waste, exhaust gas and waste water. During the Year, our printing paper consumption of the Group was recorded as 29,913 Tons. Our subsidiary was awarded the certificate of CEC-7009EL issued by China Environmental Labeling Center. This indicates our products not only qualified in quality, but also meet the specific environmental protection requirements in the adoption of printing materials, process of printing technologies and production processes. Compared with similar products, our printings are proved to be environmental-friendly. Due to the business nature, the emission of noise, solid waste, exhaust gas and waste water is immaterial. The following table presents details of consumption of printing paper of 2021 and 2022:

	Consumption of printing paper (Tons)
2021	38,880
2022	**29,913**

We advocate the concept of "green and sustainability" and are committed to making progresses towards a sustainable future by proactively addressing carbon emissions, waste management, energy and water use. We formulate internal environmental policies in order to reduce the impacts on the environment arising from our operations.

Measures to reduce paper consumption

Reducing paper consumption have a positive impact on our environment. Therefore, we will adopt different measures to reduce paper usage in our operations.

1. The book-printing business unit will update the planned book demand by obtaining a six-month rolling forecast with each business department so as to accurately match the printing demand for sales of books and classroom-based tutoring.

2. Continuous improvement in printing operations efficiency through providing on-job training to the employees of the book-printing operations and well-managed the printing machinery.

3. Further optimize the print output formatting, such as reducing default line spacing, reducing margins, reducing header/footer size, and reformatting reports/spreadsheets to fit a full page, to further reduce the paper usage without sacrificing the quality of the printing materials.

4. Reduce the use of student notepads in classroom-based tutoring. Instead of providing a free notepad to each student, the students need to make the request before the lesson. This can reduce the distribution of the notepads.

Our Directors confirm that we have obtained all applicable permits and licenses under PRC environmental laws and regulations that are material to our operations. During the Year, there were no breaches or violations of the PRC environmental laws and regulations applicable to our business operations that would have a material and adverse effect on our business, results of operations, or financial condition. We have also implemented work safety guidelines setting out safety practices, accident prevention, and accident reporting procedures. We conduct regular safety inspections and maintenance for our equipment and facilities. Our expenses in relation to environmental protection were insignificant and did not incur any compliance costs associated with climate change. We expect such expenses to remain at relatively low levels in the foreseeable future. In addition, we had not been subject to any material claim or penalty in relation to environmental protection.

Emission targets and approaches

Targets

Strategies	Approaches	Short term target	Long term target
Carbon emission reduction	Reduce carbon emission by improving energy efficiency in our operation. • Minimize the use of lighting and make full use of natural light sources. • Turn off air-conditioning system during non-working hours to reduce unnecessary power consumption.	Reduce the intensity of carbon emission by 1% of our current discharge by end of 2023.	Reduce the intensity of carbon emission by 3% of our current discharge by end of 2027.
Carbon neutral	In pursuit of our social responsibility and in line with the national target to go carbon neutral by 2060, we aim to approach carbon-neutral by 2050.		

Resource management

In order to promote the reasonable consumption and conservation of energy and thus to enhance the overall efficiency of energy consumption, we advocate efficient energy management to reduce our carbon footprint. In accordance with relevant laws including the Law of the People's Republic of China on Energy Conservation《中華人民共和國節約能源法》and the Energy Policy, we have formulated various energy reduction systems and established administration policies, continuously reducing energy consumption and improving energy efficiency by optimizing energy structure and applying advanced energy management technologies. In addition, we also endeavor to reduce negative impacts on the environment through our commitment to energy saving and sustainable development. We also plan to minimise its use of business travel.

Total consumption of energy and carbon emission

The Group adheres to the principle of conservation and exercises stringent management of energy consumption. During the Year, our offices and classrooms consumed 7,218,868.10 Kilowatt-hour of electricity which is under scope 2. According to The Greenhouse Gas Protocol — A Corporate Accounting and Reporting Standard (Revised Edition) published by the World Business Council for Sustainable Development and the World Resources Institute, Scope 1 direct emission is directly generated by the businesses which are owned or controlled by the Group. As the Group engages in the business of education services but not industrial manufacturing, thus scope 1 figure are minimal. Also, Fenbi provides online and classroom-based tutoring services, the scope 3 emission during its ordinary course of business mainly relates to disposals of waste paper and packaging materials, business travel by its employees, as well as third-party cloud services and OA systems.

For disposals of waste paper and packaging materials, it was collected at the factory during production and will be sold to third parties. During the Year, due to the impact of the COVID-19 pandemic, business trips were significantly reduced, and the numbers are minimal. The Group instead has encouraged and will continue to encourage, online communications within the Group and with its business partners to reduce carbon emissions resulting from business travel.

In addition, the Group partners with reputable suppliers who are also devoted to carbon reduction and will maintain a capacity comparable to its business need to avoid over-usage and corresponding emissions. For instance, our major third-party cloud services and OA systems providers are Tencent and Alicloud. The vendors will offer the green computing power to help clients build low-carbon digital infrastructure, as well as applying digital technologies to help optimize energy efficiency.

The following table presents details of the total consumption of electricity of 2021 and 2022:

	Total consumption of electricity (Kilowatt-hour)	**Energy intensity** (Kilowatt-hour Per 1.0 Million RMB)
2021	9,810,098.05	9.81
2022	**7,218,868.10**	**7.22**

The total Greenhouse Gas Emissions during the Year is as follows:

	Greenhouse gas emissions (Scope 2)# (Tonnes CO_2e)	Greenhouse gas emissions (Scope 3)* (Tonnes CO_2e)	Total greenhouse gas emissions (Tonnes CO_2e)	Total greenhouse gas emission intensity (Tonnes CO_2e Per 1.0 Million RMB)
2021	5,699,666.97	10,250.02	5,709,916.99	5.71
2022	**4,194,162.36**	**20,040.53**	**4,214,202.89**	**4.21**

Scope 2 indirect emission is generated by the emissions from the electricity consumed (purchased or acquired) within the Group.

* The calculation scope of the GHG emission (Scope 3) mainly includes indirect GHG emissions from the Group's paper waste; GHG emissions from paper waste are calculated in accordance with the "How to prepare an ESG Report — Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange.

Resources/energy consumption targets and approaches

The Group has been actively enhancing the resources/energy use efficiency mainly through the electricity and water savings. We do not have any problems in sourcing water that is fit for purpose. The administrative department of the Group assesses and reports figures of consumption to the management team regularly. If there is any deviation, the company will investigate the cause and take appropriate corrective measures. All of our factories and offices have stable sources of water supply from municipal pipes and the water quality meets the national safety standard.

In addition, the Group has published ESG Policies on environment management, and advocates energy saving and emission reduction:

(1) The Group issued the "Low-Carbon Energy Conservation Proposal" to encourage all employees to participate together.

(2) The Group generated energy saving and waste reduction plan for offline teaching classroom. The group will continuously reduce the provision of disposable bottled water in the classroom, try to provide students with barreled or purified drinking water, and encourage students to bring their own water cups to reduce the consumption of disposable paper cups. The group also encourages students to study together in a healthy, environmentally friendly and green environment.

(3) The Group has advocated employees to work from home and take practical actions to reduce energy consumption.

(4) The Group has put up slogans in the work area to remind employees to turn off all switches when they are off work.

(5) All electric lamps in the work area are replaced with energy-saving lamps.

The Group engages in the business of education services but not industrial manufacturing, thus the packaging material is insignificant. The Group has consumed 4,182,000 pieces of carton boxes, while the packaging cartons purchased by the Group are made of 10% recycled pulp. Due to the business nature, the emission of noise, solid waste, exhaust gas and waste water is immaterial. The following table presents details of consumption of carton boxes of 2021 and 2022:

	Consumption of carton boxes (Boxes)
2021	7,315,720
2022	**4,182,000**

Climate change risk management

Potential Climate Risks on Our Business Operation and Financial Results

We recognize the importance of preserving the natural environment, conserving natural resources, and protecting global ecosystems to create a sustainable society for future generations. We endeavor to reduce negative impacts on the environment through our commitment to energy saving and sustainable development. Since our Group's business operations do not involve the manufacturing of products nor operating in a highly-polluting industry, we do not currently have any material liabilities relating to health, work safety, and environment, and do not expect to incur any material liabilities in this regard which could have any material adverse impact on our business and operating results. Most of the potential physical risk and transition risk can only reflect on their users which may eventually impact our revenue.

Impact of The Climate Risks and Opportunities

We understand the adverse impact of global climate change, which will be intensified by the continued emission of greenhouse gases, on global economic and social development. We have identified the following ESG risks and opportunities, primarily relating to climate risks and responses related to our business, with reference to the list of climate-related risks recommended by the Task Force on Climate-related Financial Disclosures, as follows:

Physical risks: With climate change, the global temperature may increase, causing higher consumption of electricity and resulting in, among others, a rise in operating costs. The global temperature increase may also result in more unpredictable weather conditions such as frequent and severe occurrences of typhoons, hurricanes, droughts, flooding, increased rainfall, etc. Extreme weather events as a short-term risk while such weather conditions are anticipated to cause disruption to transport services, which may in turn result in the suspension of our operations.

Transition risks: Transition risk refers to the medium-and long-term financial risk related to the progress of adjustment towards a lower-carbon economy which can be prompted by, for example, changes in climate policy, technological changes, or a change in market sentiment. The laws and regulations on environmental protection may change from time to time and any change may not only increase our cost of compliance and place a financial burden on our operations but also increase the litigation risks in our operations. If our Group is in breach of any environmental laws and regulations or faces any threatened claim in this respect, it will adversely affect our reputation and our creditability. It may also adversely affect our business performance, reduce our competitiveness with new investors and damage our reputation in the industry. While we consider our operation to have limited exposure to transition risks due to climate change, our students may face different transition risks from a legal, technological, market, and reputation perspective, which may result in student loss and eventually have an adverse impact on our revenue.

Potential Opportunities: Society is transitioning to a green, low-carbon, zero-carbon economy. While analyzing the climate risk that we are exposed to, our management concludes that better risk management can unlock even greater opportunities. With the popularization and application of technologies and the further streamlining of our online and offline operations, our business operations will see a huge improvement in managing energy efficiency and there will be better chances for us to be recognized by students and business partners over other less environmentally friendly competitors. We provide both online and offline tutoring services, our teaching staff and students can switch to online when there are unpredictable weather conditions, our operations would not be severely affected and the online classes will be more reliable for the students.

Looking forward to the future, we will continue to explore sustainable business opportunities and apply more environmental-friendly new technologies, and we are committed to integrating ESG and low-carbon development strategies.

Measures to manage and mitigate ESG risks

To combat climate change, we have implemented internal policies including Low carbon energy saving proposal《低碳節能倡議書》to reduce our carbon footprint such as reducing energy consumption through a number of measures, such as (1) switching off lights and powers for electronic devices when not used, (2) using double-sided printing of documents, and (3) reducing the use of disposable products including wooden chopsticks, paper cups, paper towels, and advocating for proper waste separation. Suppliers in neighboring regions of our operations preferred to avoid carbon emissions from transportation, especially air pollution. During the Year, most of our suppliers are located in China, bringing a significant impact on reducing our carbon footprint resulting from transportation.

Regarding the physical risks, since we have both online and classroom-based tutoring services scattered in locations nationwide, the physical impact on our own operations due to climate change is limited. We are fully aware that unanticipated system failure due to extreme weather can result in chaotic mayhem. Lost data can impact ongoing collaborations with our users result in hampering our future. Three streamline broadcast service providers are engaged to ensure smooth operations no matter what level of climate disaster. However, we also realize that climate change may impose a huge impact on some of our users that have the physical operation and performances in different locations. Diversification may mitigate some of the physical risks.

While we conclude that our internal transition risk is limited due to our business nature, the such risk would be rippling from our students. Engagement and communication with our students in the future on the topic of climate change will be an important process for our Group to mitigate transition risk.

During the Year, the Group is not aware of any actual climate-related risks or damages that could negatively impact our businesses, strategies, and financial performance. In the future, our Directors will continue to exert their efforts on environmental protection and mitigation of climate-related risks in operating our business.

COMMITMENT TO COMPLIANCE

We are committed to building a culture of compliance at our Group that engages all of our employees and business partners in ethical behaviors. We recognise that breaches of laws and regulations may seriously affect the Group's performance, business operations, financial position, and reputation. Therefore, we have developed ESG Policy, in order to keep abreast of the latest regulatory developments, ensure its business is governed by various laws and regulations in China and provide relevant training to relevant employees.

Business ethics

We are committed to building a culture of compliance at our Group that engages all our employees in ethical behaviour. We strictly abide by national laws and regulations related to anti-corruption and fraud. Our schools operate in accordance with the relevant national laws, to provide high-quality education services, as well as other ancillary services.

We have formulated company policies covering compliance, integrity, and ethics, internal reporting and handling, and anti-fraud and anti-corruption system, in order to regulate the professional behaviors and professional ethics of all employees of the Group, to establish a good atmosphere of integrity and diligence, and to prevent frauds.

Preventive measures and whistle-blowing procedures

We have developed a sound governance structure for preventing corruption, bribery, extortion, fraud, and money laundering:

- Management team of the Group has the responsibility to supervise and guide the anti-fraud and establish an anti-fraud cultural environment within the company and establish an internal control system preventing fraudulent activities.

- Head of the department/branch is responsible for maintaining the internal control system, setting up reporting channel, implementing control measures, and taking remedial measures to reduce the chance of fraudulent activities within the company.

- All staff shall abide by the company's code of conduct and relevant national and industrial laws and regulations, and report fraudulent activities to anti-fraud through proper channels.

Our internal employees and external stakeholders can use e-mail, suggestion boxes, and other channels to report unethical behaviours. Any discrimination or retaliation against reporters will not be tolerated, and the reporters will be protected in assisting the investigation.

If fraud cases are identified, we will take remedial measures to rectify the internal control of the affected business units. For the employees who are confirmed to have fraud, we will punish them according to our internal regulations; for those who violate the law, we will transfer them to the judicial organs for further handling. We carried out anti-fraud training for our staff aiming to eliminate phenomena harmful to our business such as abusing power for personal gain, dereliction of duty, and taking bribes. During the Year, all of our board directors received 1-hour anti-corruption training to keep track with the latest regulations. During the Year, we were not involved in any violation incidents related to corruption, bribery, extortion, fraud, or money laundering.

Intellectual property (IP)

Intellectual property is crucial to the success of the Group. Our strong R&D and innovation efforts build the strong foundation of our business success. Protecting our IPs is essential for us to maintain competitiveness in the market. Thus, while being committed to technological innovation, we also regard intellectual property protection such as patent application and trademark registration as vital and conducive to the Group's healthy and sustainable long-term development.

We strictly abide by the Patent Law of the People's Republic of China《中華人民共和國專利法》, the Trademark Law of the People's Republic of China《中華人民共和國商標法》and other laws and regulations. We formulated the Intellectual Property Management Policy《知識產權管理制度》with the intent to develop a culture that protects our IPs from growing external threats and organize IP protection training for the staff.

We are committed to protecting the intellectual properties of the Company as well as other parties, including patents, trademarks, and copyrights. Use of all such properties must be in accordance with applicable laws and regulations. Any forms of infringement of intellectual property rights are forbidden. We have set up channels for reporting any potential infringement and misappropriation incidents.

During the Year, there was no reported incident of violation of intellectual property rights, patents, or trademarks.

Compliance Marketing

Fair dealing and truthful advertising are essential for preserving the reputation of the Group. We use trademarks, images, labels, and other information properly, and strictly manage the authenticity, accuracy, and compliance of the marketing information applied in the whole marketing process. During the Year, the Group was not aware of any incidents of non-compliance with laws and regulations having a significant impact on the Group relating to marketing.

COMMITMENT TO EMPLOYEE

The Group demonstrated its commitment to its corporate social responsibilities. We have put in place a set of social policies to promote the health and safety of our employees.

Upholding the "people first" policy, the Group is of the view personnel management is an important key to achieving sustainable business development. Our innovative solutions to address the unmet needs of students are supported by our dedicated and talented employees. The Group values the opinions of employees and believes good employee relations are crucial to the long-term development of its business. Therefore, effective communication channels have been set up for employees in different age groups and assistance appropriate to their needs is offered, with the aim of maintaining a harmonious workplace, and ultimately enhancing work efficiency and productivity as a whole. In addition, we had not been subject to any material claim or penalty in relation to health, safety, or social protection, or been involved in any significant workplace accident or fatality.

We will also focus on embracing diversity within our organization and equal and respectful treatment of all of our employees in their hiring, training, wellness, and professional and personal development. While maximizing equal career opportunities for everyone, we will also continue to promote work-life balance and create a happy culture in our workplace for all of our employees.

Compliance employment

The Group strictly abides by the Labour Law of the People's Republic of China《中華人民共和國勞動法》, the Labour Contract Law of the People's Republic of China《中華人民共和國勞動合同法》and other laws and regulations, and has established the Employee Handbook《員工手冊》which details standards covering compensation and dismissal, recruitment and promotion, working hours and rest periods, labour standards and diversity and other benefits and welfare for our employees.

We have a policy of providing equal opportunities in employment and career development regardless of gender and age.

Diversity of workforce

As of 31st December 2022, we had 7,440 employees. Details of whom are as follows:

Total workforce by gender of our Group:

	Number of employees	Percentage
Male	2,166	28.58%
Female	5,314	71.42%

Total workforce by age group of our Group:

	Number of employees	Percentage
Under age 30	4,818	64.76%
Age 31–50	2,621	35.23%
Over Age 51	1	0.01%

Total workforce by employee category of our Group:

	Number of employees	Percentage
Senior Management	5	0.07%
Middle Management	12	0.16%
Frontline and Other Employees	7,423	99.77%

Total workforce by geographical location of our Group:

	Number of employees	Percentage
China	7,440	100.00%

Turnover Figures

A total of 3,438 employees left the Group during the Year, which gave a turnover rate of 46.21%. The Group regularly reviews salary remuneration and benefits to retain talents and stay attractive and competitive in the market. See below for the detailed breakdown of the turnover rate by employee group.

Turnover Rate as of December 31,	2022
By Gender	
Female	39.80%
Male	62.23%
By Age Group	
Under age 30	49.17%
Age 31–50	40.79%
Over Age 51	0.00%
By Employee Category	
Senior Management	20.00%
Middle Management	25.00%
Frontline and Other Employees	46.26%
By Geographical Location	
Mainland China	46.21%

Recruitment and promotion

The Group encourages and advocates equal opportunities and diversity. We recruit talents through the talent market, online platforms, on-campus job fairs, internal referrals, and other channels to build our employer brand that can meet the needs of our business. It forbids engagement in or support of discrimination based on ethnicity, social class, gender, etc. in such areas as recruitment, salary, and promotion. To hire the most suitable talent, the Group will arrange interviews based on job requirements, making sure it is best capable of identifying and retaining the right talent.

We have set up different career paths for the management, general and technical personnel with corresponding different promotion channels. We assess each talent according to the performance appraisal result and skill sets, combined with measures such as talent review, and various training programs to provide equal and consistent opportunities for them to achieve career ambitions.

We have a performance appraisal system, and regularly conduct comprehensive appraisal assessments on the staff's work performance, workability, and work attitude. Through a set of closed-loop performance management systems, employees can continuously improve their work performance, workability, and professional skills. The assessment results will affect the promotion, salary adjustment, and dismissal arrangements of employees.

Employee and board Diversity

The Group has established a fair and reasonable employment system, with clear management procedures and code of conduct, to advocate the concepts of workforce diversity for all employees. We believe board diversity is one of the key elements of good corporate governance. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting. Our Board comprises seven members, including two executive Directors, two non-executive Directors and three independent non-executive Directors. Our Directors have a balanced mix of experiences, including management and strategic development, technical and software engineering, finance and investment and legal experiences in addition to tutoring business. Furthermore, our Board has a wide range of age, ranging from 38 years old to 61 years old, and comprises both female and male members. We also have a good mix of new and experienced Directors to bring in fresh ideas and new perspectives to our Group.

Observations on promotion cases

- Employee promotions have to meet the company's development needs;
- Internal employees shall be considered first when there are job vacancies;
- Management promotion should be based on assessment results, including the improvement of candidates' comprehensive quality and management ability;
- Overall employees' quality can be improved by promotions, employee cohesion and sense of belonging can be enhanced, and employee turnover can be improved by estimating talent's own performance and ability.

Compensation and benefits

We provide market-competitive compensation, and the level of which our employees receive will be driven by their qualifications, experience, potential, and performance. The Group's employees in the PRC will be entitled to five national statutory social insurances (including basic pension insurance, basic medical insurance, work-related injury insurance, maternity insurance, and unemployment insurance) as well as commercial and accident insurance under the statutory Employment Ordinance of the PRC. In addition to local statutory holidays such as basic paid annual leave and maternity leave, female employees are also entitled to prenatal leave.

Working hours and holidays

We implement a flexible working hours system requiring employees to work eight hours a day and five days a week. In addition to legal holidays, employees are entitled to annual leave, personal leave, sick leave, marriage leave, maternity leave, paternity leave, bereavement leave, and work-related injury leave.

Employee care

We are committed to providing our employees with a warm and safe working environment and take a holistic approach to employee well-being. We offer programs that support healthy work-life harmony, promote employee communication, and encourage employees to make suggestions for the improvement of the Group.

Labour standards and diversity inclusion

We strictly abide by the Labor Law of the People's Republic of China《中華人民共和國勞動法》, Provisions on the Prohibition of Using Child Labor《禁止使用童工規定》and other laws and regulations and prohibit any forms of child labor and forced labour. All works are voluntarily performed and shall not involve forced labour, debt repayment or contractually bound labour, or involuntary prison labour. The Group prohibits the recruitment of child labor, or workers aged below 15 (or at a legally forbidden age). The HR Department also checks identity documents and conducts interviews to verify the age of candidates before hiring. Should the Group discover any child labor, it would rectify the situation according to the "Child Labor Rescue and Help Procedures", terminate the employment, and arrange a physical examination to check the health of the child, and the expenses would be borne by the Group.

We do not tolerate forced labour through violence, threats, coercion, or unlawful restraint. The Group does not tolerate any physical, sexual, psychological, or verbal harassment or abuse of employees. We have procedures in place to ensure relevant policies are properly implemented throughout the Company. These include giving relevant training, employee interviews and surveys, and conducting onsite visits and audits regularly. Issues or inquiries raised by employees via different channels will be handled and investigated by the Group carefully and in strict confidence.

During the Year, we do not have any cases of child and forced labour. We treat every employee equally in recruitment, promotion, training, etc., and have zero tolerance for any discrimination and unfair treatment in the workplace due to gender, nationality, race, marital status, age, or religious belief.

Work-related fatalities and injury

Occupational Health and Safety Data in 2022 and 2021

	2022	2021	2020
Work-related fatality	**0**	0	0
Fatality rate[1]	**0.00%**	0.00%	0.00%
Work injury cases >3 days	**6**	1	0
Work injury cases ≤3 days	**0**	0	0
Lost days due to work injury	**540**	240	0

Note 1: Fatality rate is given by the number of fatalities as a result of work-related injury divided by the number of workers.

During the Year, the Group did not receive any complaints or lawsuits regarding violations of health and safety-related laws, and there was no work-related death in the past three years.

Development and training

Talents are one of the most important assets of the Group, the Group has staff development and training policies designed to help employees realise their potential. Developing our people professionally is one of the most important things to us. We have developed diversified training programs such as new employee training, management skills training, professional skills training, and management system training, to help our employees improve their working abilities and experience.

The percentage and average training hours per gender and employee category during the Reporting Period are as follows:

By Gender		
Female	25.54%	0.26 hrs
Male	26.43%	0.27 hrs
By Employee Category		
Senior Management	40.00%	0.40 hrs
Middle Management	0.00%	0.00 hrs
Frontline and Other Employees	25.82%	0.26 hrs

To strengthen employees' awareness of environmental protection and social responsibility, the Group will arrange online ESG training courses for all employees. Employees are required to complete at least 2-hour training every year.

Communication with employee

The Group values the opinions of employees and believes good employee relations are crucial to the long-term development of its business. Therefore, effective communication channels have been set up for employees in different age groups and assistance appropriate to their needs is offered, with the aim of maintaining a harmonious workplace, and ultimately enhancing work efficiency and productivity as a whole.

Ways to share opinions:

- We set up different channels to receive and handle employees' opinions and demands;
- Employees may share opinions with the leaders of the department or branch campus first. They can also share their opinions with the corresponding departments or the Audit and Supervision department of the headquarters;
- Employees can leave comments via corporate mailbox, QQ, Weibo, and WeChat;
- We encourage employees to provide real-name feedback and promise to protect employees from adverse effects. Meanwhile, we also set up an anonymous mailbox to regularly collect employees' thoughts and opinions.

Occupational health and safety

The health and safety of our employees are a priority for us. We strictly follow relevant laws and regulations on occupational health and safety, including the Work Safety Law of the People's Republic of China《中華人民共和國安全生產法》and the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases《中華人民共和國職業病防治法》, and have established the Rules for the Administration of Safe Production《安全生產管理規程》to manage workplace safety and occupational health of our employees. We do not have any work-related injuries and fatalities that occurred during the Year.

We allocate adequate resources and efforts to uphold and improve our safety management in order to reduce the inherent risks related to safety issues.

We conduct the fire drill every year to enhance the staff's awareness of fire prevention and safety accident response ability. We also regularly provide safety education training programs to the employees. The training content covers safety production requirements, hazard sources, identification of safety hidden dangers, safety protection, safe operation, etc.

Under our ESG Policy, we aim to build a sustainable community with our employees and other stakeholders by supporting initiatives that aim to create effective and lasting benefits. For example, with the COVID-19 pandemic bringing unprecedented challenges to people's lives, we have quickly responded to the situation and proactively taken various measures to help fight against the pandemic, including making donations. We were recognized as an Outstanding Donator for the Prevention and Containment of COVID-19 (新冠肺炎疫情防控捐贈突出貢獻者) by Hope Project Office of Hubei Province (湖北省希望工程辦公室) and Hubei Youth Development Foundation (湖北省青少年發展基金會).

During the Year, we did not experience any accidents or claims for personal or property damage that, individually or in the aggregate, had a material effect on our Group's financial condition and results of operations. We had complied with the applicable national and local safety laws and regulations in all material respects during the Period, and the relevant PRC authorities had not imposed any material sanctions or penalties on us for incidents of non-compliance with any safety laws or regulations in the PRC.

COMMITMENT TO CUSTOMERS

Service responsibility

As a leading non-formal VET service provider in China, we are dedicated to making high-quality non-formal VET services accessible through technology and innovation. Our major products covered online premium courses with personalized tutoring services, offline course offerings on a large-scale basis, a “challenge exercise” product leveraging our industry-leading data analytics and AI technologies, a comprehensive online question bank in China’s recruitment examination tutoring industry, and large-scale online mock examination products. Our businesses operate in accordance with the relevant education laws and regulations in their respective judications, such as the Vocational Education Law of the People’s Republic of China《中華人民共和國職業教育法》and Private Education Promotion Law of the People’s Republic of China《中華人民共和國民辦教育促進法》, to provide high quality online and offline higher education and vocational education services.

Consistent high-quality education

The high-caliber teaching staff is at the core of satisfactory learning outcomes and examination passage rates, which are highly valued by students when choosing service providers. The group has a deep bench of qualified teaching staff. Firsthand teaching experience is also critical for our high-quality content development as it allows us to react to the evolving market demands and differentiated learning patterns. We have developed substantially all the content on our platform in-house, and most of our content development specialists routinely participate in frontline teaching activities. As a result, we are able to formulate well-designed curricula and learning materials to facilitate an effective learning experience for students. Furthermore, the abundant teaching experience of our content development team, combined with our robust big data analytics, forms a solid foundation for us to continuously refine our course materials and teaching techniques. In addition, long-standing players in the industry can continue to attract and retain high-caliber teaching staff with a brand reputation, competitive compensation package, and well-designed instructor training system.

Procedures of handling complaints

During the Year, the Group did not receive any material complaints from the employees or students. The Group has taken active measures of improvement for reasonable requests. In order to effectively protect the rights and benefits of our students and employees, we continuously maintain different channels such as WeChat, email, and mailbox, for students and employees to express their demands and concerns. During the Year, the Group was not involved in any material litigations, complaints, disputes, or negative news coverage.

Awards and Recognitions

During the Year, the Group is glad to receive recognition for excellence in business through a variety of local authorities and customers.

Name of Awards	Issuing Authority	Award Photo
2021 potential members (2021年度潛力會員)	Internet Society of China-Intellectual Property Working Committee (中國互聯網協會知識產權工作委員會)	
HUAWEI App Gallery 2021 Vibrant Star Award (華為應用市場2021年度躍動星耀獎)	Huawei App Gallery	
2022 Smart Empowerment Award (2022年度智慧賦能獎)	Beijing Evening News	
2022 Top 100 Brands (2022好品牌100)	Jiemian News (界面新聞)	

Objectivity of enrollment advertisement

We carry our enrollment advertisement and promote our products mainly through advertising on mainstream media such as the official website, mobile apps, internet media, mobile newspaper, mobile application of mainstream media, and official account on the WeChat platform. The Group carry out promotional activities in strict compliance with relevant laws and regulations in their respective judications and has formulated the "Summary of high-frequency compliance questions"《合規高頻問題答疑匯總》, "Advertising Compliance Guidelines"《廣告宣傳合規指引》, "Advertising Compliance Review Process" Operation Instructions《廣告宣傳合規審核流程》操作說明, to make filing and effect management and control of the advertisement and promotional information. All advertisement and promotional information are accurate, objective, true, and not misleading.

Data security and privacy protection

The Group adheres to laws and regulations such as the Cybersecurity Law of the People's Republic of China《中華人民共和國網絡安全法》and the Regulations on the Management of Information Security《信息安全管理規程》. We undertake serious measures for protecting the IT resources and data privacy of the Company and its stakeholders, including employees, business partners, and customers. Our privacy policies and IT policies included an Information system personnel safety management system《信息系統人員安全管理制度》, an information system information security organization and job responsibilities management system《信息系統信息安全組織及崗位職責管理制度》, and an information system security incident reporting and handling management system《信息系統安全事件報告和處置管理制度》. According to the importance of data, all data is divided into 4 levels: C-1 Unrestricted, C-2 Restricted, C-3 Confidential, and C-4 Top Secret. The Group stipulates the principles and responsibilities of personal data protection, as well as preventive mechanisms for checking information leakage. Employees in high-risk positions are required to sign confidentiality agreements. Disciplinary actions are taken against individuals who have violated the policy. The Company takes the responsibility to ensure that no unauthorised person is able to access confidential information.

We also respect the privacy of customers and employees and ensure that individual information will not be leaked and abused. We sign confidentiality agreements with our business partners to avoid leakage of privacy. During the Year, the Group was not aware of any non-compliance with laws and regulations having a significant impact on the Group relating to customer privacy matters.

Security management and remedial guidelines

In order to strengthen the tracking, analysis, testing, distribution, and inspection process of security patches for the information system, the Group implements the remedial measures for computers, network equipment, and database systems, in order to ensure the proper security of user personal information, reduce the security risks, and improve information system security.

The threat level of security loopholes shall be analyzed. For different security loopholes, the corresponding remedial period is as follows:

Threat Level	Definition	Maximum Remedial Period
Urgent	Exploit the vulnerability to remote access to administrator privileges	2 Days
Serious	Attack programs and viruses combine to form network worm	5–10 Days
Medium	Gain normal user access/elevated privileges/denial of remote service	10–30 Days
Low	Information leakage, denial of local service	30–90 Days

General policy of supply chain management

In order to standardize the material supply procedures, enhance the working efficiency, and strengthen the supervision and management of partnered customers, the Group has formulated the Procurement Management System (《採購管理制度》), Working system of Cultural and Creative Procurement Department (《文創採購部工作制度》), Purchasing Management System of Bulk Purchasing Department (《大宗採購部採購管理制度》) and other policies and guidelines to scientifically manage the school procurement. Our suppliers mainly provide us with office supplies, teaching material, supplementary teaching materials, furniture, teaching devices, and other equipment.

As at December 31, 2022, The Group has 4,942 suppliers, all suppliers are located in China (including Hong Kong and Macau).

Practices and implementation of supplier engagement

In order to improve procurement efficiency and reduce procurement costs, the whole procurement process usually involves different departments including:

1) Various business departments that clarify the procurement demand and budget;

2) Functional departments that carry out standard judgment and standard output for the procurement of materials and services;

3) Purchasing department that directly participates in the procurement process, formulates the Group's overall procurement plan, and controls the procurement process;

4) Finance and Legal Departments that support the procurement process including project budget, contract financial terms, tax terms and other audit support.

The Group actively promotes healthy and fair competition among suppliers and usually invites at least 3 potential suppliers to participate in the bidding.

Firstly, we will verify and conduct due diligence on the legitimacy, including the validity of the business license, tax registration certificate, organization code certificate, logistic licenses (if needed), qualification, business scope, and operating and financial results in the last three years of relevant suppliers.

We will then require the suppliers to provide quality examination reports, quality certification, and other relevant materials of specific products for internal audit purposes. We will arrange a site visit for the Suppliers' production bases. All suppliers are required to have a good business reputation/record, a sound service team, completed tax paying record, and a solid accounting system, and no records of lawsuits and major penalties have occurred in the past two years.

Suppliers participating in bidding and procurement will then enter the process of approval and probation period. The Group will sign a procurement contract with the supplier after the probation is passed. In the payment process, the Group's financial personnel will review the entire procurement process as well as the upstream documents, and payment is made according to the contract requirements upon the reviewal.

Suppliers rating policy

The Group actively cooperates with suppliers to ensure the quality of purchased goods; apart from conducting a periodic random inspection of product quality with suppliers, we explicitly specify product quality assurance period on contracts. The Purchasing Department has also formulated the "Supplier Evaluation Criteria Form"《供應商評審標準表》and shall organize the rating of key suppliers every two years.

Score	Grading of Suppliers	Company Policies
80–100 points	Grade A	• Given priority to purchase
60–80 points	Grade B	• Maintains normal procurement and requires improvements
40–60 points	Grade C	• Secondary procurement source • Can only purchase non-essential products
less than 40 points	Grade D	• Blacklisted • Forbidden to purchase from the suppliers for three years

Those with a comprehensive score of more than 60 points are qualified suppliers, those with more than 80 points are high-quality suppliers, and those with less than 60 points are unqualified suppliers.

COMMITMENT TO THE COMMUNITY

We believe that the well-being of the community is an important factor in the long-term development of our Group. Despite the impact of the epidemic, we try our best to participate in the construction and development of local communities and fulfill our corporate citizenship responsibility. We have organized and participated in different activities and events during the Year:

Date	Beneficiary	Details
May 2022	Communist Youth League of China-Beijing Chaoyang District Committee (共青團北京市朝陽區委員會)	60 hours of Volunteer services and donating materials to local governments
September 2022	Beijing Chaoyang District Government and Ulanqab City, Inner Mongolia (北京市朝陽區政府及內蒙古烏蘭察布市)	RMB30,000 with 200,000 sets of stationery and 5,700 sets of school bags

pwc 羅兵咸永道

To the Shareholders of Fenbi Ltd.
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Fenbi Ltd. (the "**Company**") and its subsidiaries (the "**Group**"), which are set out on pages 86 to 173, comprise:

- the consolidated balance sheet as at 31 December 2022;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is related to revenue recognition of tutoring services.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition of tutoring services Refer to Note 2.21, Note 4(b) and Note 5 to the consolidated financial statements. The Group is engaged in the tutoring services to customers through online platforms and classroom-based platforms. During the year ended 31 December 2022, the Group recognized revenue from tutoring services including classroom-based and online tutoring services collectively amounting to RMB2,353,858,000. Revenue from the tutoring services is recognized when the performance obligation is satisfied over the relevant periods in which the services are rendered. For certain courses, customers are eligible to obtain a partial or full refund based on the terms of the relevant contracts. The Group recognised some or all of the amount of the refund related variable considerations in revenue only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur or when the uncertainty associated with the variable consideration is resolved. The Group estimates the refund related variable considerations and refund rates by taking into consideration of the customer behaviours and historical experience. The estimation of the refund related variable considerations and refund rates in the tutoring services involve significant accounting estimates and judgments. We considered revenue recognition of tutoring services is a key audit matter because of large volume of transactions, large number of customers and the significant judgments on the recognition of variable considerations and hence significant effort was spent on auditing revenue recognition.	In response to this key audit matter, we performed the following procedures: — Assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty, complexity, subjectivity and other inherent risk factors; — Evaluated the appropriateness of the Group's revenue recognition policies across various tutoring services based on the applicable financial reporting standards; — Understood, evaluated and tested, on a sample basis, the key internal controls in relation to recognition of revenue from tutoring services; — Discussed with management and assessed the appropriateness of the refund rates used in management's estimation and measurement of the refund related variable considerations by considering the Group's historical data; and In respect of the revenue from tutoring services including classroom-based and online tutoring services, we performed the following testing procedures on a sample basis: — Tested revenue transactions by comparing the underlying contracts, the key terms and attributes of the contracts, where relevant, against the underlying data recorded in the Group's IT systems used in the transaction processing; — Tested the mathematical accuracy of the calculations of the revenue recognised proportionately over the relevant period in which the services are rendered； — Checked revenue transactions to supporting evidence (e.g. student attendance records, bank documents related to the course considerations received and refunds); and — Tested the mathematical accuracy of the calculations of refund related variable considerations. Based on the procedures performed, we found the revenue transactions tested and the judgments applied in revenue recognition were supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the Fenbi Ltd. 2022 Annual Report (the "**annual report**") other than the consolidated financial statements and our auditor's report thereon. We have obtained some of the other information including the Management Discussion and Analysis prior to the date of this auditor's report. The remaining other information, including the Corporate Information, Chairman's Statement, Results Highlights, Directors and Senior Management, Directors' Report, Corporate Governance Report, Environmental, Social and Governance Report and the other sections to be included in the annual report, is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining other information to be included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to Audit Committee and take appropriate action considering our legal rights and obligations.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Peter Man Kam Tsang.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2023

Consolidated Statement of Profit or Loss

(Expressed in Renminbi Yuan unless otherwise indicated)

	Notes	Year ended December 31, 2022 RMB'000	2021 RMB'000
Revenue	5	**2,810,429**	3,428,559
Cost of sales	5, 8	**(1,444,724)**	(2,587,692)
Gross profit		**1,365,705**	840,867
Administrative expenses	8	**(543,689)**	(1,119,886)
Selling and marketing expenses	8	**(516,762)**	(704,125)
Research and development expenses	8	**(196,592)**	(286,959)
Net impairment losses on financial assets and contract assets		**(324)**	(641)
Other income	6	**32,575**	25,005
Other (losses)/gains, net	7	**(121,770)**	1,226
Operating profit/(loss)		**19,143**	(1,244,513)
Fair value losses of financial liabilities at fair value through profit or loss	26	**(2,031,793)**	(582,957)
Loss on settlement of financial liabilities at fair value through profit or loss	26	**—**	(212,760)
Finance income		**9,195**	2,304
Finance costs		**(42,071)**	(20,003)
Finance costs — net	10	**(32,876)**	(17,699)
Loss before income tax		**(2,045,526)**	(2,057,929)
Income tax (expense)/credit	11	**(41,821)**	11,958
Loss for the year		**(2,087,347)**	(2,045,971)
Loss attributable to:			
— Owners of the Company		**(2,087,347)**	(2,045,971)
Earnings per share for loss attributable to owners of the Company *(RMB)*			
Basic loss per share	12	**(2.86)**	(2.81)
Diluted loss per share	12	**(2.86)**	(2.81)

The accompanying notes on pages 92 to 173 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

(Expressed in Renminbi Yuan unless otherwise indicated)

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Loss for the year	**(2,087,347)**	(2,045,971)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences of the Company's subsidiaries	**(3,398)**	(122)
Items that will not be reclassified to profit or loss		
Currency translation differences of the Company	**(739,220)**	175,054
Other comprehensive (loss)/income for the year, net of tax	**(742,618)**	174,932
Total comprehensive loss for the year	**(2,829,965)**	(1,871,039)
Total comprehensive loss for the year attributable to:		
— Owners of the Company	**(2,829,965)**	(1,871,039)

The accompanying notes on pages 92 to 173 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

(Expressed in Renminbi Yuan unless otherwise indicated)

	Notes	As at December 31, 2022 RMB'000	2021 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	13	**129,978**	231,105
Right-of-use assets	15	**161,925**	429,680
Intangible assets	14	**874**	882
Prepayment and other receivables	18	**13,254**	35,234
Deferred income tax assets	28	**37,467**	64,808
Total non-current assets		**343,498**	761,709
Current assets			
Inventories	19	**94,173**	87,197
Trade receivables	17	**15,936**	5,656
Contract assets	5	**9,000**	20,528
Prepayment and other receivables	18	**62,403**	97,127
Financial assets at fair value through profit or loss	20	**20,033**	10,139
Other financial assets at amortized cost		**41,071**	—
Cash and cash equivalents	21	**1,047,402**	1,159,867
Total current assets		**1,290,018**	1,380,514
Total assets		**1,633,516**	2,142,223

Consolidated Balance Sheet

(Expressed in Renminbi Yuan unless otherwise indicated)

	Notes	As at December 31, 2022 RMB'000	2021 RMB'000
Equity/(deficit)			
Equity/(deficit) attributable to owners of the Company			
Share capital	22	**47**	47
Share premium	22	**2,648,395**	2,648,395
Other reserves	24	**(9,002,744)**	(8,465,224)
Accumulated losses		**(4,508,623)**	(2,417,858)
Total deficit		**(10,862,925)**	(8,234,640)
Liabilities			
Non-current liabilities			
Lease liabilities	15	**101,650**	267,904
Financial liabilities at fair value through profit or loss	26	**11,668,784**	8,756,164
Deferred income		**1,408**	—
Total non-current liabilities		**11,771,842**	9,024,068
Current liabilities			
Trade and other payables	25	**238,588**	313,360
Contract liabilities	5	**117,866**	169,194
Refund liabilities	27	**275,024**	680,293
Current income tax liabilities		**25,562**	22,164
Lease liabilities	15	**62,628**	167,784
Financial liabilities at fair value through profit or loss	26	**4,931**	—
Total current liabilities		**724,599**	1,352,795
Total liabilities		**12,496,441**	10,376,863
Total deficit and liabilities		**1,633,516**	2,142,223

The accompanying notes on pages 92 to 173 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 86 to 173 were approved by the Board of Directors on 28 March 2023 and were signed on its behalf:

ZHANG Xiaolong **WEI Liang**

Consolidated Statement of Changes in Equity

(Expressed in Renminbi Yuan unless otherwise indicated)

	Notes	Attributable to equity holders of the Company				
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at January 1, 2022		**47**	**2,648,395**	**(8,465,224)**	**(2,417,858)**	**(8,234,640)**
Loss for the year		**–**	**–**	**–**	**(2,087,347)**	**(2,087,347)**
Other comprehensive income		**–**	**–**	**(742,618)**	**–**	**(742,618)**
Total comprehensive loss for the year		**–**	**–**	**(742,618)**	**(2,087,347)**	**(2,829,965)**
Transactions with owners in their capacity as owners:						
Profit appropriation to statutory surplus reserves		**–**	**–**	**3,418**	**(3,418)**	**–**
Employee share option plan — value of employee services	9, 23	**–**	**–**	**201,680**	**–**	**201,680**
Total transactions with owners in their capacity as owners		**–**	**–**	**205,098**	**(3,418)**	**201,680**
Balance at December 31, 2022		**47**	**2,648,395**	**(9,002,744)**	**(4,508,623)**	**(10,862,925)**
Balance at January 1, 2021		42	2,307,991	(8,516,304)	(367,889)	(6,576,160)
Loss for the year		–	–	–	(2,045,971)	(2,045,971)
Other comprehensive income		–	–	174,932	–	174,932
Total comprehensive loss for the year		–	–	174,932	(2,045,971)	(1,871,039)
Transactions with owners in their capacity as owners:						
Issue of ordinary shares	22	5	340,404	(340,409)	–	–
Profit appropriation to statutory surplus reserves		–	–	3,998	(3,998)	–
Employee share option plan — value of employee services	9, 23	–	–	325,542	–	325,542
Employee share option plan — repurchase value	23	–	–	(112,983)	–	(112,983)
Total transactions with owners in their capacity as owners		5	340,404	(123,852)	(3,998)	212,559
Balance at December 31, 2021		47	2,648,395	(8,465,224)	(2,417,858)	(8,234,640)

The accompanying notes on pages 92 to 173 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(Expressed in Renminbi Yuan unless otherwise indicated)

	Notes	Year ended December 31, 2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Cash used in operations	30	**(73,461)**	(882,646)
Interest paid		**(12,027)**	(20,003)
Interest received		**9,195**	2,229
Income tax paid		**(7,699)**	(14,709)
Net cash used in operating activities		**(83,992)**	(915,129)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(36,009)**	(219,003)
Proceeds from government related to purchase property, plant and equipment		**1,408**	—
Purchase of intangible assets	14	**(105)**	(289)
Purchase of financial assets at fair value through profit or loss	3	**(3,392,024)**	(3,691,338)
Purchase of other financial assets at amortized cost		**(41,828)**	—
Redemption of financial assets at fair value through profit or loss	3	**3,390,993**	4,052,345
Proceeds from sale of property, plant and equipment		**38,655**	14,801
Net cash in for the settlement of derivatives		**2,118**	—
Net cash (used in)/generated from investing activities		**(36,792)**	156,516
Cash flows from financing activities			
Proceeds from bank borrowing		**54,530**	—
Repayments of bank borrowing		**(54,530)**	—
Payments for listing expenses		**(352)**	(764)
Payment for redemption of certain preferred shares	26	**—**	(754,310)
Principal elements of lease payments	30(b)	**(84,891)**	(157,904)
Proceeds from issuance of preferred shares	26	**—**	2,525,415
Net cash (used in)/generated from financing activities		**(85,243)**	1,612,437
Net (decrease)/increase in cash and cash equivalents		**(206,027)**	853,824
Cash and cash equivalents, at the beginning of the year		**1,159,867**	332,650
Exchange difference		**93,562**	(26,607)
Cash and cash equivalents at the end of the year	21	**1,047,402**	1,159,867

The accompanying notes on pages 92 to 173 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Fenbi Ltd. (the "**Company**") was incorporated in the Cayman Islands on December 14, 2020 as an exempted company with limited liability under the Company Law (Cap 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is at 190 Elgin Avenue, George Town, Grand Cayman KY1-9008, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "**Group**") are principally engaged in providing non-formal vocational education and training services in the People's Republic of China (the "**PRC**").

The ultimate controlling party are Mr. ZHANG Xiaolong, Mr. WEI Liang, Mr. LI Yong and Mr. LI Xin as they entered into a concert party agreement to acknowledge and confirm their acting-in-concert relationship in relation to the Company.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since January 9, 2023 (the "**Listing**") by way of its initial public offering (the "**IPO**").

The financial statements are presented in Renminbi ("**RMB**") and rounded to nearest thousand Yuan, unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") and interpretations issued by IFRSs Interpretations Committee (IFRSs IC) applicable to companies reporting under IFRSs. The financial statements comply with IFRSs as issued by the International Accounting Standards Board ("**IASB**"). The consolidated financial statements have 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 consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

New and amended standards adopted by the group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2022:

- Property, Plant and Equipment: Proceeds before Intended Use — Amendments to IAS 16
- Onerous Contracts — Cost of Fulfilling a Contract — Amendments to IAS 37
- Annual Improvements to IFRS Standards 2018–2020, and
- Reference to the Conceptual Framework — Amendments to IFRS 3.

The above standards did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published and are not mandatory for December 31, 2022 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

New Standards, interpretations and amendments		Effective date
IFRS 17	Insurance contracts	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associates or joint ventures	To be determined
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	January 1, 2023
Amendments to IAS 8	Definition of accounting estimates	January 1, 2023
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction	January 1, 2023
Amendment to IFRS 16	Leases liability in a sale and leaseback	January 1, 2024
Amendments to IAS 1	Classification of liabilities as current or non-current	January 1, 2024
Amendment to IAS 1	Non current liabilities with covenants	January 1, 2024

The Group has already commenced an assessment of the impact of these new or revised standards and amendments. Management expects that "IAS 1 (Amendment) 'Classification of Liabilities as Current or Non-current'", after its adoption on January 1, 2023, may cause a reclassification of "convertible preferred shares" from non-current liabilities to current liabilities, as the preferred shares may be converted into ordinary shares at the option of the preferred shareholders at any time. Except for this, no significant impact on the finance performance and positions of the Group is expected when they become effective.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Principles of consolidation

(a) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 2.2(b)).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in consolidated financial statements.

(b) *Business combinations*

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest’s proportionate share of the acquired entity’s net identifiable assets.

Acquisition-related costs are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Principles of consolidation *(Continued)*

(b) Business combinations *(Continued)*

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("**CODM**").

The executive directors assess the financial performance and position of the Group and makes strategic decisions. The executive directors, which has been identified as being the chief operating decision maker, consists of the chief executive officer, the chief financial officer and the manager for corporate planning.

2.5 Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currencies of the subsidiaries in mainland of the PRC is Renminbi ("**RMB**"), while the Company's functional currency is US Dollar ("**USD**"). As the majority of the assets and operations of the Group are located in the PRC, the consolidated financial statements are presented in RMB.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains/(losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation *(Continued)*

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet

- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences is re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or joint ventures that do not result in the group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to consolidated statement of profit or loss during the reporting period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment *(Continued)*

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

• Electronic Equipment	2–5 years
• Machinery	3–10 years
• Motor Vehicles	4 years
• Furniture, fittings and equipment	2–5 years
• Leasehold Improvements	3–5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Construction-in-progress ("**CIP**") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses (if any). Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to the respective categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

2.7 Intangible assets

Intangible assets represent the computer software.

All the acquired intangible assets except goodwill are stated at cost less accumulated amortization and accumulated impairment losses. Cost represents consideration paid for the rights to use all the intangible assets. The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

• Software	10 years

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets *(Continued)*

Research and development costs

Research expenditure that do not meet the criteria below are recognised as an expense as incurred. Development expenditure are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

2.8 Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group's derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other gains/(losses).

2.9 Impairment of non-financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's 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 OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

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

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL 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 the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised 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 amortised 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 recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Investments and other financial assets *(Continued)*

(iii) *Measurement* *(Continued)*

Debt instruments (Continued)

- FVOCI: 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 FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised 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 separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, 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 recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised 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 FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 17 for further details.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Inventories

Inventories comprise raw materials, work in progress- outsourced and finished goods.

Raw materials and work in progress — outsourced and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 1 year and therefore all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 17 for further information about the Group's accounting for trade receivables and note 3.1 for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions which are subject to an insignificant risk of changes in value.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

2.16 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Convertible preferred shares

The Group designated the convertible preferred shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance costs in profit or loss.

Subsequent to initial recognition, the convertible preferred shares are carried at fair value with changes in fair value recognised in profit or loss, except for the portion attributable to credit risk change that should be charged to other comprehensive income.

The convertible preferred shares are classified as non-current liabilities if the convertible preferred shares holders cannot demand the Company to redeem the convertible preferred shares for at least 12 months after the end of the reporting period.

2.18 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Current and deferred income tax *(Continued)*

Deferred income tax *(Continued)*

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.19 Employee benefits

Liabilities for wages and salaries

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current liabilities in the balance sheet.

Pension obligations

The entities within the Group registered in the PRC make employee benefit contributions based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and medical benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to the existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

Housing funds

The PRC employees of the Group are also entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to those funds based on a certain percentage of the employee's salaries. The Group's liabilities in respect of these funds is limited to the contributions payable in each period.

Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Share-based payments

Share-based compensation benefits are provided to employees via the Employee Share Option Plan (the "**ESOP**") adopted by the Company.

Employee Share Option

The fair value of options granted under the ESOP is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

— including any market performance conditions

— excluding the impact of any service and non-market performance vesting conditions (for example, remaining an employee of the entity over a specified time period), and

— including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The fair value of the liability for cash-settled transactions is re-measured at each reporting date and at the date of settlement. Any changes in fair value are recognised in profit or loss for the period. Equity-settled transactions are not remeasured after the grant date.

Share-based payment transaction among group entities

The grant by the Company of share incentive plan over its equity instruments to the employees of subsidiaries undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiaries undertakings, with a corresponding credit to equity in separate financial statements of the Company.

Modifications and Cancellations

The Group may modify the terms and conditions on which the employee share option plan was granted. If a modification increases the fair value of the equity instruments granted, the incremental fair value granted is included in the measurement of the amount recognised for the services received over the remainder of the vesting year. A grant of the employee share option plan, that is cancelled or settled during the vesting year, is treated as an acceleration of vesting. The Group will immediately recognise the amount that otherwise would have been recognised for services received over the remainder of the vesting year.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Revenue recognition

Revenue is recognised 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 Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer.
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

Consignment sales are the sales of books of the Group under consignment arrangement with certain distributor which undertakes to sell the books to end customers on behalf of the Group. Revenue is recognised by the Group when the control of the goods is transferred to the end customers.

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines 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 estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, the Group presents the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer. A receivable is recorded when the Group has 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 the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Revenue recognition *(Continued)*

The Group's revenue is mainly generated from providing vocational education, training services and selling books.

(a) *Providing services*

The services that the Group provide to the customers via different platform can be classified as classroom-based tutoring services and online tutoring services. Revenue related to online tutoring services includes tutoring courses and other online learning products (i.e., membership package and challenge exercise). The tutoring courses service via online or classroom-based platforms could also be classified as the non-contractual class and contractual classes based on different refund policies.

Fees are generally received in advance prior to the beginning of certain courses. The Group recognised 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 recognised proportionately over the relevant period in which the services are rendered.

As for constraint on the amount of variable consideration, the Group will recognise 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 recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Group recognise a refund liability if the Group receives consideration from a customer and expects to refund some or all of that consideration to the customer. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (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.

(b) *Sales of books*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.23 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease 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 the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Leases *(Continued)*

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. If that rate cannot be readily determined, which is generally the case for leases in the group, 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.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

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 comprising the following:

- 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 the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalue its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Leases *(Continued)*

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised 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 are no low-value assets during the reporting periods presented.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 6). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.25 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets, see note 7 below.

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see note 10 below.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Risk	Exposure arising from	Measurement
Market risk — foreign exchange	Recognised financial assets and liabilities not denominated in RMB	Sensitivity analysis
Market risk — interest rate	Interest income/costs from cash and cash equivalents and borrowing as a result of changes in interest rates	Sensitivity analysis
Credit risk	Cash and cash equivalents, contract assets, trade receivables, and prepayment and other receivables	Credit ratings
Liquidity risk	Trade and other payables, lease liabilities, financial liabilities at fair value through profit or loss	Maturity analysis
Price risk	Financial assets at fair value through profit or loss	Sensitivity analysis

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group regularly monitors its exposure and currently has not used any derivative financial instruments to hedge any of these financial risks.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transaction settled in RMB. The functional currencies of the subsidiaries in mainland of the PRC is RMB, while the functional currency of the Company and subsidiaries outside mainland of the PRC is USD. Foreign exchange risk arises from the fluctuation in exchange where the Group's monetary assets are denominated in currency other than functional currency.

The Group has continued to closely track and manage its exposure to fluctuation in foreign exchange rates confronted by the majority of the Group's deposits in foreign currencies during the year. The Group also entered into foreign currency forward contracts, cross currency swap contracts and foreign currency option contracts (the "**Foreign Currency Contracts**") to hedge certain risk exposures. These Foreign Currency Contracts are related to manage its exposure to fluctuation in foreign exchange rates. No hedge accounting is applied on the Foreign Currency Contracts. These contracts are accounted for as held for trading with gains/(losses) recognised in profit or loss.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk (Continued)

As at December 31, 2022, the carrying amounts of the Group's monetary assets that are denominated in currency other than functional currency of the respective group entities are RMB1,003,000 (2021: RMB38,994,000).

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Cash and cash equivalents		
RMB (functional currency — USD)	**1,003**	38,994

Impact on post tax profit

As shown in the table above, the Group is primarily exposed to changes in USD/RMB exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from USD denominated financial instruments.

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Impact on post tax profit		
USD/RMB exchange rate — weaken 5%	**(38)**	(1,462)
USD/RMB exchange rate — strengthen 5%	**38**	1,462

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent from changes in market interest rate.

As at December 31, 2022, if the interest rates of cash and cash equivalents had been increased/decreased by 50 basis points with all other variables held constant, the change of the post-tax profit would have been RMB3,928,000 (2021: RMB4,350,000) higher/lower.

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Year ended		
Net profit decrease/(increase)		
— increase in interest rate	**3,928**	4,350
— decrease in interest rate	**(3,928)**	(4,350)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) *Market risk* (Continued)

(iii) Price risk

The Group is exposed to price risk in respect of financial assets held by the Group which are carried at fair value with changes in the fair value recognised in profit or loss.

To manage its price risk arising from investments, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group. Each investment is managed by senior management on a case by case basis. The impact of variable price of investments held by the Group please refer to Note 20.

(b) *Credit risk*

Credit risk arises from cash and cash equivalents, contract assets, trade receivables, other receivables, lease receivables, and financial assets at fair value through profit or loss (FVPL) and other financial assets at amortised cost.

(i) Risk management

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

Credit risk is managed on a group basis. The credit risk of the Group's financial assets, which mainly comprise cash and cash equivalents and trade and other receivables, and financial assets at fair value through profit or loss and Other financial assets at amortised cost, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

All of the Group's trade receivables and other receivables have no collateral.

The Group assessed the credit quality of the counterparties by taking into account their financial position, credit history, forward looking information and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) ***Credit risk*** *(Continued)*

(ii) Impairment of financial assets

The Group has five types of financial assets that are subject to the expected credit loss model:

- cash and cash equivalents
- contract assets
- trade receivables
- other receivables
- lease receivables
- fair value through profit or loss
- other financial assets at amortised cost

Cash and cash equivalents

As at December 31, 2022 and 2021, the Group's cash and cash equivalents were held in state-owned financial institutions, local banks or financial institutions. Management does not expect any losses from non-performance by these counterparties.

Lease receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for lease receivables. The carrying amount and the expected credit loss on lease receivables are insignificant to the Group.

Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. Trade receivables mainly represents the trade receivables from customers for providing vocational education and training services and selling books. The loss allowance for trade receivables at amortised cost was not material during the year ended December 31, 2022 and 2021.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) ***Credit risk*** *(Continued)*

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

The expected loss rates are based on the historical credit losses and adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified economic policies, macroeconomic conditions, industry risks, probabilities of default and expected operating performance of the debtors and accordingly adjusts the historical loss rates based on expected changes in these factors.

The expected credit loss rate for the provision matrix is for trade receivables which are mainly related to our vocational education and training services and books selling services. As there is no significant change in the business operation of these services, actual loss rates for trade receivables, customer profile and the adjustments for forward-looking macroeconomic data during the years, the change in the expected credit loss rates for the provision matrix is insignificant throughout the years.

The loss allowances for trade receivables and contract assets carried at amortised cost as at December 31, 2022 have been RMB301,000 (2021: RMB268,000).

December 31, 2022	**Up to 3 months RMB'000**	**3 to 6 months RMB'000**	**6 to 12 months RMB'000**	**1 to 2 years RMB'000**	**Total RMB'000**
Expected loss rate	**0.08% to 2.46%**	**2.69%**	**2.92%**	**3.77%**	**—**
Gross carrying amount — trade receivables	**14,375**	**445**	**785**	**563**	**16,168**
Gross carrying amount — contract assets	**9,069**	**—**	**—**	**—**	**9,069**
Loss allowance	**246**	**12**	**22**	**21**	**301**

December 31, 2021	Up to 3 months RMB'000	3 to 6 months RMB'000	6 to 12 months RMB'000	1 to 2 years RMB'000	Total RMB'000
Expected loss rate	0.08% to 2.44%	2.48% to 3.31%	3.33%	—	—
Gross carrying amount — trade receivables	4,861	837	72	—	5,770
Gross carrying amount — contract assets	20,682	—	—	—	20,682
Loss allowance	246	20	2	—	268

The loss allowances for trade receivables and contract assets as at December 31, 2022 reconcile to the opening loss allowances have been RMB301,000 (2021: RMB268,000).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) ***Credit risk*** *(Continued)*

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

	Trade receivables, Contract assets RMB'000
Opening loss allowance as at January 1, 2022	**268**
Increase in the allowance recognised in profit or loss during the year	**33**
Receivables written off during the year as uncollectible	**–**
Closing loss allowance as at December 31, 2022 *(Note 5, Note 17)*	**301**

	Trade receivables, Contract assets RMB'000
Opening loss allowance as at January 1, 2021	185
Increase in the allowance recognised in profit or loss during the year	83
Receivables written off during the year as uncollectible	–
Closing loss allowance as at December 31, 2021 *(Note 5, Note 17)*	268

Other receivables

The Group applies the IFRS 9 general approach to measuring expected credit losses for all other receivables. The directors of the Company consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the years. Other receivables at the end of each reporting period were mainly deposits from third parties. To assess whether there is a significant increase in credit risk, the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations.
- actual or expected significant changes in the operating results of the counterparty.
- significant changes in the expected performance and behaviour of the counterparty, including changes in the payment status of the counterparty.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) ***Credit risk*** (Continued)

(ii) Impairment of financial assets (Continued)

Other receivables (Continued)

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where other receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Over the term of the financial assets, the Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis.

The Group uses the expected credit loss model to determine the expected loss provision for other receivables. A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	**Group definition of category**	**Basis for recognition of expected credit loss provision**
Stage 1	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Stage 2	Receivables for which there is a significant increase in credit risk as significant increase in credit risk is presumed if interest and/or principal repayments are 90 days past due	Lifetime expected losses
Stage 3	Interest and/or principal repayments are 180 days past due	Lifetime expected losses

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

Other receivables (Continued)

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Other receivables				
At December 31, 2022				
Gross carrying amount	**28,538**	**686**	**–**	**29,224**
Loss allowance provision	**(252)**	**(214)**	**–**	**(466)**
At December 31, 2021				
Gross carrying amount	55,626	845	–	56,471
Loss allowance provision	(1,122)	(485)	–	(1,607)

The loss allowance for other receivables carried at amortised cost as at December 31, 2022 reconciles to the opening loss allowance has been RMB466,000 (2021: RMB1,607,000).

	Other receivables **RMB'000**
Opening loss allowance as at January 1, 2022	**1,607**
Decrease in the allowance recognised in profit or loss during the year	**(401)**
Receivables written off during the year as uncollectible	**(740)**
Closing loss allowance as at December 31, 2022 *(Note 18)*	**466**

	Other receivables RMB'000
Opening loss allowance as at January 1, 2021	1,056
Increase in the allowance recognised in profit or loss during the year	581
Receivables written off during the year as uncollectible	(30)
Closing loss allowance as at December 31, 2021 *(Note 18)*	1,607

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) *Credit risk* (Continued)

(ii) Impairment of financial assets (Continued)

Financial assets at fair value through profit or loss

The entity is also exposed to credit risk in relation to investment in wealth management products that are measured at financial assets at fair value through profit or loss. The maximum exposure at the reporting period is the carrying amount of these investments which is RMB20,033,000 (2021:RMB10,139,000).

Other financial assets at amortised cost

Other financial assets at amortised cost include a short-term note with fixed interest rate.

The loss allowance for other financial assets at amortised cost as at December 31, 2022 reconciles to the opening loss allowance as follows:

	Other financial assets at amortised cost RMB'000
Opening loss allowance as at January 1, 2022	–
Increase in the allowance recognised in profit or loss during the year	692
Exchange difference	25
Closing loss allowance as at December 31, 2022	717

(c) *Liquidity risk*

To manage the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operation and mitigate the effects of fluctuations cash flows. The Company expects to fund its future cash flow needs through internally generated cash flows from operations.

As at December 31, 2022, the Group has cash and cash equivalents, other receivables, trade receivables, financial assets at fair value through profit or loss and other financial assets at amortised cost of RMB1,160,750,000 (2021: RMB1,259,769,000) (Note 16), that can be used for fulfillment obligation or used in operation to generate cash inflows.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) *Liquidity risk* (Continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At December 31, 2022					
Trade and other payable (excluding accrued salaries and bonus, and other tax payable)	**48,732**	**–**	**–**	**–**	**48,732**
Lease liabilities	**68,579**	**46,988**	**52,029**	**9,463**	**177,059**
Financial liabilities at fair value through profit or loss	**4,931**	**–**	**11,668,784**	**–**	**11,673,715**
	122,242	**46,988**	**11,720,813**	**9,463**	**11,899,506**
At December 31, 2021					
Trade and other payable (excluding accrued salaries and bonus, and other tax payable)	52,356	–	–	–	52,356
Lease liabilities	181,918	120,117	123,447	40,370	465,852
Financial liabilities at fair value through profit or loss	–	–	8,756,164	–	8,756,164
	234,274	120,117	8,879,611	40,370	9,274,372

3.2 Capital management

The Group's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company's strategy remains constant throughout the years.

The directors review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through raising new debts as well as redemption of the existing debts.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management *(Continued)*

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group as at December 31, 2022 was 765% (2021: 484%).

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Total liabilities	**12,496,441**	10,376,863
Total assets	**1,633,516**	2,142,223
The liability-to-asset ratio	**765%**	484%

3.3 Fair value estimation

(a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, 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 the 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 (for example, over-the-counter derivatives) is determined using valuation techniques which maximise 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(a) *Fair value hierarchy* (Continued)

Recurring fair value measurements	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At December 31, 2022				
Assets				
Financial assets at fair value through profit or loss	**—**	**—**	**20,033**	**20,033**
Liabilities				
Financial liabilities at fair value through profit or loss	**—**	**4,931**	**11,668,784**	**11,673,715**
At December 31, 2021				
Assets				
Financial assets at fair value through profit or loss	—	—	10,139	10,139
Liabilities				
Financial liabilities at fair value through profit or loss	—	—	8,756,164	8,756,164

There were no transfers between level 1, level 2 and level 3 during the year.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(b) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items of financial assets at fair value through profit or loss for the year ended December 31, 2022 and 2021, respectively:

	Wealth management products RMB'000
Opening balance as at January 1, 2022	**10,139**
Additions	**3,392,024**
Settlements	**(3,390,993)**
Fair value gains on financial assets at fair value through profit or loss *(Note 7)*	**8,863**
Closing balance as at December 31, 2022	**20,033**

	Wealth management products RMB'000
Opening balance as at January 1, 2021	351,639
Additions	3,691,338
Settlements	(4,052,345)
Fair value gains on financial assets at fair value through profit or loss *(Note 7)*	19,507
Closing balance as at December 31, 2021	10,139

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 fair value measurements and movements of the financial liabilities at fair value through profit or loss are in Note 26.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(c) *Valuation inputs and relationships to fair value*

Financial Assets

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements (see above for the valuation techniques adopted):

Description	Fair value at December 31, 2022 RMB'000	2021 RMB'000	Unobservable Inputs
Wealth management products	**20,033**	10,139	The estimated weighted average return rates of these products were 1.35% to 4.20% per annum.

The financial assets measured at fair value through profit and loss were investment in wealth management products that usually held for several days or over one year. The increase of estimated weighted average return rates will lead to the higher fair value of the financial products. If the estimated weighted average return rates had increased/decreased by 0.5% with all other variables held constant, the profit before income tax for the year ended December 31, 2022, would have been approximately RMB44,000 (2021: RMB98,000) higher/lower.

Financial liabilities

The valuation techniques used to determine the fair value of our level 3 instruments are discounted cash flow method and option-pricing method. *(Note 26)*

(d) *The Group's valuation processes*

For the financial assets and liabilities, including level 3 fair values, the Company's finance department performs the valuations. The finance department reports directly to the chief financial officer (CFO). Discussions of valuation processes and results are held between the CFO and finance department annually, in line with the Company's annual reporting dates.

Financial Assets

The valuation technique is discounted cash flows. Future cash flows are estimated and discounted using the expected yield rate with reference to the benchmark yield rate of the financial investment products of banks.

Financial Liabilities

The valuations of financial liabilities at FVPL as of December 31, 2022 and 2021, respectively, performed by independent professional valuer, were adopted by the Group for financial reporting purposes, including the convertible prefer shares. The external experts report directly to the CFO.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(d) ***The Group's valuation processes*** (Continued)

Changes in level 3 fair values are analysed at the end of each reporting period during the valuation discussion between the CFO and external experts. As part of this discussion the external experts presents a report that explains the reason for the fair value movements.

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements, together with a quantitative sensitivity analysis as at the end of each of the years.

Description	Fair value at December 31, 2022 RMB'000	Fair value at December 31, 2021 RMB'000	Significant un-observable inputs	December 31, 2022	December 31, 2021	Relationship of significant un-observable inputs to fair value
			Discount rate	**13.0%**	13.5%	The higher the discount rate, the lower the fair value. December 31, 2022: 1% Increase/(decrease), would decrease/(increase) in fair value by RMB1,082.7 million/1,323.2 million. December 31, 2021: 1%Increase/(decrease), would decrease/(increase) in fair value by RMB752.3 million/913.4 million.
Convertible preferred shares	**11,668,784**	8,756,164	Discounts for lack of marketability ("**DLOM**")	**2%–19%**	10%–20%	The higher the discount for lack of marketability, the lower the fair value. December 31, 2022: 1% Increase/(decrease), would decrease/(increase) in fair value by RMB119.1 million/119.1 million. December 31, 2021: 5% Increase/(decrease), would decrease/(increase) in fair value by RMB517.4 million/517.4 million.
			Expected volatility	**51.89%–58.63%**	49.68%–50.89%	The higher the expected volatility, the lower the fair value. December 31, 2022: 5% Increase/(decrease), would decrease/(increase) in fair value by RMB3,000/2,000. December 31, 2021: 5% Increase/(decrease), would decrease/(increase) in fair value by RMB22.4 million/20.0 million.

* There were no significant inter-relationships between unobservable inputs that materially affect fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Contractual arrangements

The Group conducts a substantial portion of the business through the Operating Entities in the PRC due to regulatory restrictions on the foreign ownership in the Group's Operating Entities in the PRC. The Group does not have any equity interest in the Operating Entities. The Directors assessed whether or not the Group has control over the Operating Entities, has rights to variable returns from its involvement with the Operating Entities and has the ability to affect those returns through its power over the Operating Entities. After assessment, the Directors concluded that the Group has control over the Operating Entities as a result of the contractual agreements and accordingly the financial position and their operating results of the Operating Entities are included in the Group's consolidated financial statements throughout the years.

Nevertheless, the contractual agreements may not be as effective as direct legal ownership in providing the Group with direct control over the Operating Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Operating Entities. Significant judgement is involved in determining whether the Group is able to control these entities through these contractual arrangements. The Directors, based on the advice of its legal counsel, consider that the contractual agreements among the Operating Entities and their equity shareholders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

(b) Estimation of the refund related variable considerations of tutoring courses service of the Group

The Group recognised some or all of the amount of the refund related variable considerations in revenue only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group recognised a refund liability if the Group expects to refund some or all of the consideration received from customers.

Based on different refund policies, the tutoring courses service that the Group provide to customers can be classified as non-contractual classes and contractual classes and the Group expects to refund some or all of the consideration received from customers.

In terms of non-contractual classes, under the Group's standard contract terms, customers are usually entitled to refund for the considerations received in relation with undelivered tutoring courses programs and services. The Group estimates the refund related variable considerations and refund rates by considering the historical experience. Revenue is recognised for the amount of consideration to which the Group expects to be entitled. A contract liability is recognised for sales in which no revenue has yet been recognised.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Estimation of the refund related variable considerations of tutoring courses service of the Group *(Continued)*

In terms of contractual classes, depending on the contract terms specified in the contracts, customers are eligible to obtain a partial or full refund if the customers complete the tutoring courses and fail the exam and meet certain agreed refund conditions specified in the contracts. To calculate the refund related variable considerations, the Group estimates the refund rates based on historical records of the refund claimed by the customers. The estimated refund rates constitute a reduction of the transaction price when recognising revenues ratably as tutoring courses programs and services are provided over the relevant period in which the services are rendered. The Group reviews and supervises the refund rates on a periodic basis. When there are no sufficient historical records for the Group's estimation on behaviour-based refunds rate, revenue will not be recognised until uncertainty associated with the variable considerations is resolved, when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

The estimation of the refund related variable considerations and refund rates in the tutoring courses service may involve significant judgements related to customer behaviours and performance. New information may become available that causes the Group to change its judgement and estimations regarding the refund related variable considerations and refund rated used in revenue recognition and the adequacy of the refund liabilities. Such changes will impact revenue recognised in the period that such determination is made.

(c) Recognition of share-based compensation expenses

As disclosed in note 2.20 and 23, an equity-settled share-based compensation plan was adopted by the Group and share options under the plan were granted to the participants. The fair value of the share options is developed based on the fair value of the ordinary shares, which is derived from the equity value of the Group determined under discounted cash flow method performed by an independent valuer. The share-based compensation is to be expensed over the vesting period. Significant estimate on key assumptions, such as discount rate, risk-free interest rate and discount for lack of marketability, are made by the management in applying the valuation model.

5 SEGMENT INFORMATION

The Group's CODM has been identified as executive directors who considers the business from the service perspective.

The CODM review the Group's internal reporting in order to assess performance, allocate resources, and determine the operating segments based on these reports.

As at December 31, 2022, the CODM have identified the following reportable segments:

- Classroom-based tutoring services: the tutoring services are offered by the Group through classroom teaching to the students who physically attend the lectures in tutoring centers and tutoring bases/campuses.

- Online tutoring services: the tutoring services are offered by the Group via online. This service includes all the tutoring courses services except for the Classroom-based tutoring courses services, and mainly represent online tutoring courses services, membership package, challenge exercise etc.

- Sales of books: including books provided with tutoring services and printing business relevant with book selling business.

As at December 31, 2022, the CODM assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and distribution expenses, administrative expenses and research and development costs are common costs incurred for these operating segments as a whole and therefore, they are not included in the measure of the segments' performance which is used by the CODM as a basis for the purpose of resource allocation and assessment of segment performance. Net impairment loss on financial assets, other (losses)/gains, net, finance costs, income tax expense and assets and liabilities are also not allocated to individual operating segment.

The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated statement of profit or loss. Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in these consolidated financial statements. There were no segment assets and segment liabilities information provided to the CODM for measure of the segments' performance.

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the PRC and earns substantially all of the revenues from external customers attributed to the PRC. The revenue is mainly generated in the PRC.

5 SEGMENT INFORMATION *(Continued)*

The segment information provided to the CODM for the reportable segments for the year ended December 31, 2022 is as follows:

	Year ended December 31, 2022			
	Classroom-based tutoring services RMB'000	**Online tutoring services RMB'000**	**Sales of books RMB'000**	**Total RMB'000**
Segment revenue	**938,941**	**1,414,917**	**604,662**	**2,958,520**
Inter-segment revenue	**—**	**—**	**(148,091)**	**(148,091)**
Revenue from external customers	**938,941**	**1,414,917**	**456,571**	**2,810,429**
Cost of sales	**(592,746)**	**(548,967)**	**(303,011)**	**(1,444,724)**
Gross profit	**346,195**	**865,950**	**153,560**	**1,365,705**

The segment information provided to the CODM for the reportable segments for the year ended December 31, 2021 is as follows:

	Year ended December 31, 2021			
	Classroom-based tutoring services RMB'000	Online tutoring services RMB'000	Sales of books RMB'000	Total RMB'000
Segment revenue	1,617,330	1,396,125	704,636	3,718,091
Inter-segment revenue	—	—	(289,532)	(289,532)
Revenue from external customers	1,617,330	1,396,125	415,104	3,428,559
Cost of sales	(1,622,240)	(680,476)	(284,976)	(2,587,692)
Gross profit	(4,910)	715,649	130,128	840,867

For online tutoring services and classroom-based tutoring services, the timing of revenue recognition is over time. For sales of books, the timing of revenue recognition is when the performance obligations of sales and delivery of goods are satisfied at a point in time.

The reconciliation of gross profit to profit before income tax during the year ended December 31, 2022 is shown in the consolidated statement of profit or loss.

5 SEGMENT INFORMATION *(Continued)*

For the year ended December 31, 2022, the Group's customer base is diversified and none of customer with whom transactions have exceeded 10% of the Group's revenues.

As of December 31, 2022, substantially all of the non-current assets other than financial instruments and deferred tax assets of the Group were located in the PRC.

Contract liabilities and contract assets

The Group has recognised the following contract liabilities, which represented the unsatisfied performance obligation and contract assets as at December 31, 2022 and the contract liabilities and contract assets will be expected to be recognised within one year:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Contract assets relating to certain program	**9,069**	20,682
Loss allowance	**(69)**	(154)
Contract assets	**9,000**	20,528
Contract liabilities	**117,866**	169,194

(i) Revenue recognised in relation to contract liabilities

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Contract liabilities	**134,725**	131,075

(ii) Unsatisfied contracts

The majority of contract liabilities as at December 31, 2022 were expected to be recognised within one year. As the contract terms with customers usually within 12 months, the Group applied the practical expedient as permitted under IFRS 15 not to disclose the transaction price allocated to unsatisfied performance obligations as at December 31, 2022.

6 OTHER INCOME

	Year ended December 31, 2022 RMB'000	2021 RMB'000
Government grants	**2,022**	8
Rental and sub-lease income	**4,594**	3,089
VAT refund and VAT reduction	**15,928**	21,617
Others	**10,031**	291
	32,575	25,005

7 OTHER (LOSSES)/GAINS, NET

	Year ended December 31, 2022 RMB'000	2021 RMB'000
Net fair value losses on derivatives *(b)*	**(17,480)**	—
Fair value gains on financial assets at fair value through profit or loss	**8,863**	19,507
Net losses related to early termination of lease agreements and the disposal of related leasehold improvements *(a)*	**(29,632)**	(31,299)
Net losses on disposal of property, plant and equipment	**(8,234)**	(3,660)
Donation	**(430)**	(29)
Net foreign exchange (losses)/gains	**(77,741)**	12,261
Others	**2,884**	4,446
	(121,770)	1,226

(a) The net losses of RMB29,632,000 for the year ended December 31, 2022 were mainly related to terminate the leases for properties which did not complete the required records of the fire safety design and the completion inspection before commencing operation. (The net losses of RMB31,299,000 for the year ended December 31, 2021 were mainly related to the process of the Group starting in the fourth quarter of 2021 to close part of its local operational hubs in order to streamline its national offline network.)

(b) For the year ended December 31, 2022, the Group entered into certain Foreign Currency Contracts. For the year ended December 31, 2022, a loss recognised mainly due to the settlement of the foreign exchange forward contract and foreign exchange swap contracts.

8 EXPENSES BY NATURE

	Notes	Year ended December 31, 2022 RMB'000	2021 RMB'000
Employee benefit expenses	9	**1,569,262**	2,719,223
Cost of course materials	19	**257,252**	380,139
Human resource outsourcing and other labour costs		**174,143**	225,575
Promotion expenses		**72,934**	142,813
Depreciation of right-of-use assets	15	**101,573**	214,389
Logistic expenses		**79,560**	85,278
Lease expenses	15	**158,181**	372,847
Classroom consumables		**17,123**	70,493
Meal expenses provided to students		**15,727**	41,084
Travel expenses		**21,216**	68,053
Office expenses		**8,186**	70,341
Depreciation of property, plant and equipment	13	**58,517**	78,000
Amortisation for intangible assets	14	**113**	98
Services fee for cloud storage		**18,561**	13,653
Property management costs		**18,951**	33,861
Tax and surcharge		**14,535**	17,635
Auditor's remuneration			
— Audit and audit related services		**4,685**	—
— Non-audit services		**917**	—
Charges for licensed payment institutions		**15,657**	26,996
Listing expenses		**45,368**	12,518
Others		**49,306**	125,666
		2,701,767	4,698,662

9 EMPLOYEE BENEFIT EXPENSE

	Notes	Year ended December 31, 2022 RMB'000	2021 RMB'000
Wages, salaries and bonus		**1,088,668**	1,753,687
Pension costs — defined contribution plans	(a)	**72,299**	122,290
Other social security costs		**133,003**	200,936
Share based payment	23	**201,680**	415,379
Other employee welfares		**73,612**	226,931
Total employee benefit expenses		**1,569,262**	2,719,223

Employee benefit expenses changed in the consolidated statement of profit or loss are as follow:

	Year ended December 31, 2022 RMB'000	2021 RMB'000
Cost of sales	**731,119**	1,439,906
Administrative expenses	**278,018**	547,687
Selling and distribution expenses	**386,175**	460,022
Research and development costs	**173,950**	271,608
	1,569,262	2,719,223

(a) During the year ended December 31, 2022 and 2021, there were no forfeited contributions under the Group's defined contribution plans.

9 EMPLOYEE BENEFIT EXPENSE *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments are the highest in the Group for the years include 1 director (2021: 1) whose emoluments are reflected in the analysis shown in Note 34. Details of the remunerations of the highest paid non-director individuals during the year are set out as below:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Wages, salaries and bonus	**7,451**	5,646
Pension costs — defined contribution plans	**247**	158
Other social security costs	**325**	231
Share based payment	**81,200**	176,033
Total employee benefit expense	**89,223**	182,068

The emoluments fell within the following bands:

	Year ended December 31,	
	2022	2021
Emolument bands (in HK dollar)		
HK15,500,001 to HK16,000,000	**—**	1
HK18,500,001 to HK19,000,000	**—**	1
HK24,500,001 to HK25,000,000	**—**	1
HK38,000,001 to HK38,500,000	**1**	—
HK40,000,001 to HK40,500,000	**1**	—
HK40,500,001 to HK41,000,000	**—**	1
HK67,000,001 to HK67,500,000	**1**	—
HK76,500,001 to HK77,000,000	**1**	—
	4	4

10 FINANCE COSTS, NET

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Finance income:		
— Interest received	**9,195**	2,229
— Net foreign exchange gains	**—**	75
	9,195	2,304
Finance costs:		
— Finance cost on borrowings	**(202)**	—
— Finance cost on lease liabilities	**(11,825)**	(20,003)
— Net foreign exchange losses	**(30,044)**	—
	(42,071)	(20,003)
Finance costs, net	**(32,876)**	(17,699)

11 INCOME TAX EXPENSE/(CREDIT)

This note provides an analysis of the Group's income tax expense, and shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

(a) Income tax expense/(credit)

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Current income tax	**14,480**	12,857
Deferred income tax	**27,341**	(24,815)
Income tax expense/(credit)	**41,821**	(11,958)

11 INCOME TAX EXPENSE/(CREDIT) *(Continued)*

(a) Income tax expense/(credit) *(Continued)*

(i) Cayman Islands corporate income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Act and, accordingly, is exempted from local income tax.

(ii) Hong Kong profits tax

No provision for Hong Kong profit tax was provided as the Group did not have assessable profits in Hong Kong during the year.

(iii) PRC corporate income tax ("CIT")

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% for the year ended December 31, 2022 (2021: 25%).

A subsidiary of the Group in the PRC is approved as High and New Technology Enterprise, and accordingly, it was subject to a reduced preferential CIT rate of 15% for the year ended December 31, 2022 (2021: 15%) according to the applicable CIT Law. Certain of the Group's PRC subsidiaries are qualified as small and micro enterprises and are entitled to a preferential corporate income tax rate of 20% during the reporting period.

(iv) PRC Withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profit derived after January 1, 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be 5%.

The Group does not have any plan in the foreseeable future to require its subsidiaries in mainland China to distribute their retained earnings and intends to retain them to operate and expand its business in mainland China. Accordingly, no deferred income tax liability related to Withholding tax on undistributed earnings was accrued as of the end of each reporting period.

11 INCOME TAX EXPENSE/(CREDIT) *(Continued)*

(b) Numerical reconciliation of income tax expense/(credit) to prima facie tax payable

	Notes	Year ended December 31, 2022 RMB'000	2021 RMB'000
Loss before income tax		**(2,045,526)**	(2,057,929)
Tax expense calculated at applicable statutory tax rate	(a)	**18,440**	(314,177)
Preferential tax rates on income of certain subsidiaries		**(21,101)**	39,229
Expenses not deductible for taxation purposes	(b)	**51,644**	104,707
Temporary difference for which no deferred tax asset was recognised		**20,016**	3,394
Previously unrecognised tax losses now recouped to reduce current tax expense		**(35,914)**	(7)
Additional deduction of research and development expense		**(14,961)**	(11,278)
Tax losses for which no deferred tax asset was recognised		**23,697**	166,174
		41,821	(11,958)

(a) Taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

(b) Expenses not deductible for taxation purposes during the year were mainly share-based compensation accrued by Employee Share Option Plan.

(c) During the year ended December 31, 2022, the Company incurred a loss of approximately RMB2,082,182,000 (2021: RMB804,846,000). Since the Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Act and is exempted from local income tax, the related tax calculated based on the losses incurred by the Company was nil.

12 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing:

The profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	For the year ended December 31,	
	2022	2021
Loss attributable to equity holders of the Company *(RMB'000)*	**(2,087,347)**	(2,045,971)
Weighted average number of ordinary shares in issue *(thousands) (Note a, Note b)*	**728,623**	728,623
Basic losses per share *(RMB Yuan)*	**(2.86)**	(2.81)

(b) Diluted

Diluted earnings per share is calculated by dividing:

The profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	For the year ended December 31,	
	2022	2021
Loss attributable to equity holders of the Company *(RMB'000)*	**(2,087,347)**	(2,045,971)
Weighted average number of outstanding ordinary shares *(thousands) (Note a, Note b)*	**728,623**	728,623
Diluted losses per share *(RMB Yuan)*	**(2.86)**	(2.81)

Note a: When calculating the basic and diluted earnings per share, the ordinary shares of 72,862,000 shares was treated as if it has been in issuance since January 1, 2021.

Note b: In the calculation of weighted average number of ordinary shares outstanding for the years ended December 31, 2022 and 2021, the share split occurred on December 20, 2022 had been retrospectively adjusted.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As the Group incurred losses for the years ended December 31, 2022 and 2021, respectively, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for years ended December 31, 2022 and 2021 are same as basic loss per share for the respective years.

13 PROPERTY, PLANT AND EQUIPMENT

	Machinery RMB'000	Electronic equipment RMB'000	Motor Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Leasehold Improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended December 31, 2022							
Opening net book amount	**56,463**	**51,844**	**21,955**	**22,474**	**78,369**	**–**	**231,105**
Additions	**2,865**	**7,891**	**4,977**	**1,379**	**8,609**	**10,665**	**36,386**
Transfer upon completion	**10,665**	**–**	**–**	**–**	**–**	**(10,665)**	**–**
Disposals	**(2,197)**	**(29,710)**	**(9,870)**	**(5,112)**	**(32,107)**	**–**	**(78,996)**
Depreciation charge	**(6,320)**	**(17,460)**	**(6,243)**	**(2,102)**	**(26,392)**	**–**	**(58,517)**
Closing net book amount	**61,476**	**12,565**	**10,819**	**16,639**	**28,479**	**–**	**129,978**
As at December 31, 2022							
Cost	**70,240**	**55,343**	**19,632**	**21,830**	**71,673**	**–**	**238,718**
Accumulated depreciation	**(8,764)**	**(42,778)**	**(8,813)**	**(5,191)**	**(43,194)**	**–**	**(108,740)**
Net book amount	**61,476**	**12,565**	**10,819**	**16,639**	**28,479**	**–**	**129,978**

	Machinery RMB'000	Electronic equipment RMB'000	Motor Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Leasehold Improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended December 31, 2021							
Opening net book amount	–	51,781	11,491	10,562	59,740	–	133,574
Additions	60,270	40,317	20,010	16,670	83,173	–	220,440
Disposals	(781)	(12,568)	(3,112)	(2,000)	(26,448)	–	(44,909)
Depreciation charge	(3,026)	(27,686)	(6,434)	(2,758)	(38,096)	–	(78,000)
Closing net book amount	56,463	51,844	21,955	22,474	78,369	–	231,105
As at December 31, 2021							
Cost	59,463	91,648	28,963	27,156	133,387	–	340,617
Accumulated depreciation	(3,000)	(39,804)	(7,008)	(4,682)	(55,018)	–	(109,512)
Net book amount	56,463	51,844	21,955	22,474	78,369	–	231,105

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) No property, plant and equipment of the Group were pledged as security as at December 31, 2022 and 2021.

(b) Depreciation charges were charged to the consolidated statement of profit or loss as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Cost of sales	**20,226**	20,637
Administrative expenses	**32,398**	45,542
Selling expenses	**5,487**	9,918
Research and development expenses	**406**	1,903
	58,517	78,000

14 INTANGIBLE ASSETS

	Computer software RMB'000
Year ended December 31, 2022	
Opening net book amount	**882**
Additions	**105**
Amortisation	**(113)**
Closing net book amount as at December 31, 2022	**874**
At December 31, 2022	
Cost	**1,187**
Accumulated depreciation	**(313)**
Net book amount	**874**
Year ended December 31, 2021	
Opening net book amount	691
Additions	289
Amortisation	(98)
Closing net book amount as at December 31, 2021	882
At December 31, 2021	
Cost	1,082
Accumulated depreciation	(200)
Net book amount	882

14 INTANGIBLE ASSETS *(Continued)*

Amortisation of the Group's intangible assets were charged in the following accounts in the consolidated statement of profit or loss as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Administrative expenses	**113**	98

15 LEASES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Right-of-use assets		
Buildings	**161,925**	429,680
Lease liabilities		
Current	**(62,628)**	(167,784)
Non-current	**(101,650)**	(267,904)
	(164,278)	(435,688)

Additions to the right-of-use assets during the year 2022 were RMB19,017,000 (2021: RMB460,437,000).

(ii) Amounts recognised in the consolidated statement of profit or loss

The consolidated statement of profit or loss includes the following amounts relating to leases:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Depreciation charge of right-of-use assets	**101,573**	214,389
Interest expense (included in finance cost)	**11,825**	20,003
Expense relating to short-term leases	**158,181**	372,847

The total cash outflow for short-term leases during the year 2022 were RMB158,181,000 (2021: RMB372,847,000).

The total cash outflow for leases except for short-term leases during the year 2022 were RMB84,891,000 (2021: RMB157,904,000).

15 LEASES *(Continued)*

(iii) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, teaching bases and dormitory buildings. Rental contracts are typically made for fixed periods of 1 year to 10 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Leased assets may not be used as security for borrowing purposes.

16 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Financial assets		
Financial assets at amortised cost		
Trade receivables	**15,936**	5,656
Prepayments and other receivables (excluding non-financial assets)	**36,308**	84,107
Cash and cash equivalents	**1,047,402**	1,159,867
Other financial assets at amortised cost	**41,071**	—
Financial assets at fair value through profit or loss	**20,033**	10,139
	1,160,750	1,259,769
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables (excluding tax payable and accrued salaries and bonuses)	**48,732**	52,356
Lease liabilities	**164,278**	435,688
Financial liabilities at fair value through profit or loss	**11,673,715**	8,756,164
	11,886,725	9,244,208

The Group's exposure to various risks associated with the financial instruments is discussed in note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

17 TRADE RECEIVABLES

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Trade receivables from contracts with customers	**16,168**	5,770
Loss allowance	**(232)**	(114)
	15,936	5,656

(a) Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

(b) The credit terms given to trade customers are determined on an individual basis with normal credit period ranging from 30 to 60 days.

The aging analysis of the trade receivables based on invoice date were as follows:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Up to 1 month	**8,005**	2,674
1 to 2 months	**4,560**	1,461
2 to 3 months	**1,810**	726
3 to 6 months	**445**	837
6 to 12 months	**785**	72
1 to 2 years	**563**	—
	16,168	5,770

(c) Impairment and risk exposure

The Group applies the IFRS 9 general approach to measuring expected credit losses for other receivables and applies the IFRS 9 simplified approach to trade receivables. The loss allowance for trade receivables at amortised cost was not material during the year ended December 31, 2022 and 2021. Note 3.1 (b) provides for details about the calculation of the allowance.

18 PREPAYMENTS AND OTHER RECEIVABLES

	Note	As at December 31, 2022 RMB'000	2021 RMB'000
Non-current portion:			
Prepayments for property, plant and equipment		**43**	420
Long-term receivables related to sub-lease income		**–**	2,663
Deposits receivable		**13,211**	32,214
Loss allowance		**–**	(63)
		13,254	35,234
Current portion:			
Advances to suppliers		**26,455**	29,146
Prepayment for taxes		**573**	3,955
Deposits receivable		**11,632**	15,686
Current portion of long-term receivables		**–**	3,357
Input VAT recoverable		**7,753**	23,220
Amount due from related parties	33(c)	**2,843**	2,993
Others		**13,613**	20,314
Loss allowance		**(466)**	(1,544)
		62,403	97,127
		75,657	132,361

19 INVENTORIES

	As at December 31, 2022 RMB'000	2021 RMB'000
Finished goods	**50,524**	51,134
Raw materials	**25,055**	16,980
Work in progress	**18,594**	19,083
	94,173	87,197

The costs of individual items of inventory are determined using weighted average costs.

The cost of inventories recognised as an expense and included in cost of sales for the year ended December 31, 2022 amounted to RMB257,252,000 (2021: RMB380,139,000) (Note 8).

Included in the finished goods related to consignment arrangement were RMB1,357,000 as of December 31, 2022 (2021: RMB3,481,000).

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Financial assets at fair value through profit or loss	**20,033**	10,139

(i) Amounts recognised in profit or loss

During the year, the following gains were recognised in profit or loss:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Fair value gains on financial assets at fair value through profit or loss (see note 7)	**8,863**	19,507

(ii) Risk exposure and fair value measurements

Information about the group's exposure to price risk is provided in note 3.1. For information about the methods and assumptions used in determining fair value see note 3.3.

21 CASH AND CASH EQUIVALENTS

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Cash and cash equivalents		
Cash at bank and in hand		
— RMB	**406,567**	441,138
— USD	**614,692**	702,093
— HKD	**58**	—
Cash at licensed payment institutions		
— RMB	**26,085**	16,636
	1,047,402	1,159,867

22 SHARE CAPITAL AND SHARE PREMIUM

Company

Authorized:	**Number of ordinary shares**	**Nominal value of ordinary shares**
		USD'000
As at January 1, 2021 and December 31, 2021	500,000,000	50
Effect of Share Subdivision *(Note b)*	4,500,000,000	—
As at December 31, 2022	5,000,000,000	50

Issued:	**Number of ordinary shares** (Thousands)	**Nominal value of ordinary shares** USD	**Equivalent nominal value of ordinary shares** RMB'000	**Share premium** RMB'000	**Total share capital and share premium** RMB'000
As at December 31, 2020	64,949	6,495	42	2,307,991	2,308,033
Add:					
Issue of ordinary shares *(Note a)*	7,913	791	5	340,404	340,409
As at December 31, 2021	72,862	7,286	47	2,648,395	2,648,442
Add:					
Effect of Share Subdivision *(Note b)*	**655,761**	**–**	**–**	**–**	**–**
As at December 31, 2022	**728,623**	**7,286**	**47**	**2,648,395**	**2,648,442**

Note a: On March 3, 2021, the Company issued 7,913,200 Class A ordinary shares with a par value of USD0.0001 each.

Note b: On December 20, 2022, the shareholders of the Company resolved a share subdivision (the "**Share Subdivision**") pursuant to which each of the issued and unissued shares with par value of US$0.0001 each be subdivided into ten shares of the Company with par value of US$0.00001 each, after which, the authorized share capital of the Company shall be US$50,000 divided into 5,000,000,000 shares with par value of US$0.00001 each.

23 SHARES BASED PAYMENTS

(i) Employee Option Plan

The Company adopted a series of share incentive plans before December 2020 with the purpose of motivating and rewarding certain employees and consultants. In December 2020, the Company adopted the Pre-IPO Share Option Scheme (the "**Pre-IPO ESOP**") to entirely replace the previous share incentive plans of the Group The Pre-IPO ESOP is valid and effective for 10 years from the approval.

Under the Pre-IPO ESOP adopted by the Group, participants are granted options which only vest if the service condition are met. The exercise price is nil. Participation in the ESOP is at the Board's discretion. The share options shall be subject to different vesting service periods from the vesting commencement date, which is the grant date of options.

As prescribed in the share option agreements and the ESOPs:

— For vesting schedule of service period for three years, i) one-third (1/3) of the granted share options are vested on each anniversary from the vesting commencement date; or ii) 25% of the granted share options are vested on the second anniversary from the vesting commencement date and 30% and 45% of granted share options are vested on the same day in the following two subsequent years, respectively.

— For vesting schedule as four years, i) 25% of the granted share options are vested on each anniversary from the vesting commencement date; or ii) the granted share options are vested on the fourth anniversary of the vesting commencement date.

— For vesting schedule that vested immediately upon granted, granted share options are vested upon the vesting commencement date.

In the event a participant's employment or service with the Group is terminated for any reason, the Group shall have a right to repurchase any shares purchased by such participant upon exercise of option or the vested options at a price calculated based on the fair market value on that date as defined in the option agreement.

(Expressed in Renminbi Yuan unless otherwise indicated)

23 SHARES BASED PAYMENTS

(i) Employee Option Plan *(Continued)*

Movements in the number of share options granted to participants are below:

	Number of share options
Outstanding as of January 1, 2022	**17,797,695**
Granted during the year	**4,328,868**
Forfeited during the year	**(276,513)**
Effect of share subdivision *(Note b)*	**196,650,450**
Outstanding as of December 31, 2022	**218,500,500**
— Exercisable as of December 31, 2022	**167,306,120**
Outstanding as of January 1, 2021	10,816,675
Granted during the year	9,729,770
Forfeited during the year	(216,500)
Settled during the year *(Note a)*	(2,532,250)
Outstanding as of December 31, 2021	17,797,695
— Exercisable as of December 31, 2021	13,123,797

The total expenses recognised in profit or loss in respect of the share-based compensations under the share incentive plans are RMB201,680,000 for the year ended December 31, 2022 (2021: RMB415,379,000). *(Note 9)*

Note a:

During April to July 2021, in order to retain certain core employees of the Group, the Company approved their applications to the Company to repurchase part of their vested share options, which was an aggregate of 2,532,250 options. The repurchase price is based on the fair value of the shares in the latest financing of the Company. The payment made to the holders of these share options on the repurchase has been accounted for as a deduction from equity of RMB112,983,000 and the difference between the repurchase price and the fair value of these share options as at the respective settlement date of approximately RMB89,837,000 was recognised in the profit or loss.

Note b:

It represented the effects of adjustments made to the numbers of shares as a result of the Share Subdivision.

(Expressed in Renminbi Yuan unless otherwise indicated)

23 SHARES BASED PAYMENTS *(Continued)*

(ii) Fair value of share options

As the exercise price of share option is nil, the fair value of the share options is developed based on the spot price of the ordinary share. The Group has used the discounted cash flow method to determine the underlying equity fair value of the Group. After the issuance of preferred shares by the Company, options-pricing method under equity allocation approach is also applied in the determination of respective fair values of ordinary shares and preferred shares.

Key assumptions for grant date fair value during the year are set as below:

	Year ended December 31,	
	2022	2021
Fair value per unit (RMB)	**5.35 to 7.99**	3.57 to 5.21
Discount for lack of marketability ("**DLOM**")	**2% to 20%**	10% to 20%
Discount rate (%)	**13% to 13.5%**	13.5% to 14.0%
Risk-free rate (%)	**1.35% to 4.22%**	0.14% to 1.12%
Expected option life (year)	**10**	10

When calculating the fair value of the share option per unit, the Share Subdivision was treated as if those share split had been occurred since January 1, 2021.

The weighted-average remaining contract life for outstanding share options was 8.09 years as of December 31, 2022 (2021: 8.69 years).

24 OTHER RESERVES

	Capital reserves RMB'000	Statutory surplus reserves RMB'000 (Note b)	Share-based payment reserves RMB'000	Other comprehensive income RMB'000	Total RMB'000
As at January 1, 2022	**(9,029,398)**	**9,148**	**380,094**	**174,932**	**(8,465,224)**
Profit appropriation to statutory surplus reserves	**–**	**3,418**	**–**	**–**	**3,418**
Share-based compensation *(Note 9)*	**–**	**–**	**201,680**	**–**	**201,680**
Currency translation differences	**–**	**–**	**–**	**(742,618)**	**(742,618)**
As at December 31, 2022	**(9,029,398)**	**12,566**	**581,774**	**(567,686)**	**(9,002,744)**

	Capital reserves RMB'000	Statutory surplus reserves RMB'000 (Note b)	Share-based payment reserves RMB'000	Other comprehensive income RMB'000	Total RMB'000
As at January 1, 2021	(8,688,989)	5,150	167,535	–	(8,516,304)
Profit appropriation to statutory surplus reserves	–	3,998	–	–	3,998
Reorganization related to spin off from the predecessor holding company *(Note a)*	(340,409)	–	–	–	(340,409)
Share-based compensation *(Note 9)*	–	–	325,542	–	325,542
Employee share option plan — repurchase value *(Note 23)*	–	–	(112,983)	–	(112,983)
Currency translation differences	–	–	–	174,932	174,932
As at December 31, 2021	(9,029,398)	9,148	380,094	174,932	(8,465,224)

(a) Capital reserves

On March 3, 2021, the Company issued 7,913,200 Class A ordinary shares with a par value of USD0.0001 each and the balances of share capital and share premium related to the ordinary shares issued were amounted to RMB5,000 and RMB340,404,000, respectively.

(b) Statutory surplus reserves

In accordance with the relevant laws and regulations of the PRC, when distributing the net profit of each year, the Group shall set aside 10% of its profit after income tax (based on the PRC statutory financial statements and after offsetting accumulated losses from prior years) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the paid-in capital).

Statutory reserve can be used to make up for the loss or increase the paid-in capital after approval from the appropriate authorities.

25 TRADE AND OTHER PAYABLES

	As at December 31, 2022 RMB'000	2021 RMB'000
Current liabilities		
Trade payables	**22,010**	28,431
Accrued salaries, bonus and welfares	**173,313**	169,216
Tax payable (other than income tax payable)	**16,543**	91,788
Accrued auditor's remuneration	**4,719**	—
Other payables	**22,003**	23,925
	238,588	313,360

The ageing analysis of the trade payables based on their respective invoice and issue dates are as follows:

	As at December 31, 2022 RMB'000	2021 RMB'000
Within 1 year	**21,885**	28,348
1 to 2 years	**79**	82
More than 2 years	**46**	1
	22,010	28,431

26 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31, **2022** **RMB'000**	2021 RMB'000
Non-current liabilities		
Convertible preferred shares		
— Series A preferred shares *(Note a)*	**8,940,747**	6,192,356
— Series B preferred shares *(Note b)*	**2,728,037**	2,563,808
Current liabilities		
Foreign currency option contracts	**4,931**	—
	11,673,715	8,756,164

Note a:

Beijing Fenbi Bluesky Technology Co., Ltd. ("**Beijing Fenbi Bluesky**") was controlled by Chalk Ltd, an exempted company with limited liability incorporated in the Cayman Islands in February 2018 and a non-wholly owned subsidiary of YUAN Inc, through a series of contractual agreements. In order for the spin-off of from YUAN Inc and its subsidiaries and transfer the business to the Company and in preparation for the IPO of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the reorganization.

On December 31, 2020, as the consideration of the spin-off of the Group from YUAN Inc, the Company issued 113,252,200 Series A preferred shares of the Company with a par value of USD0.0001 each to the respective shareholders of YUAN Inc at nominal consideration, to reflect the beneficial ownership of the shareholders of YUAN Inc in the Listing Business (the "**Series A preferred shares**").

Note b:

Pursuant to the share purchase agreement dated February 7, 2021, Series B investors agreed to subscribe for 31,529,700 Series B preferred shares of the Company with par value of USD0.0001 each (the "**Series B preferred shares**"). The purchase price paid by Series B investors was equivalent to approximately USD12.35 per share (the "**Series B Issue Price**"), which was determined based on arms' length negotiation between the Series B investors and the Company after taking in account of various factors, including, among others, the timing of investment and business performance of the Group. The investment was completed and fully settled on June 9, 2021. The Series A preferred shares and Series B preferred shares are called convertible preferred shares, collectively.

26 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

(i) The key terms of the convertible preferred shares are as follows:

(a) Redemption rights (only for Series B preferred shares):

The shareholders of preferred shares may give a written notice to the Company at any time or from time to time requesting redemption of all or part of their preferred shares under specific conditions as provided in the article of association.

The Series B preferred shares may be redeemed at any time on or after (whichever is earlier):

- December 31, 2025 if a qualified IPO has not been consummated,
- if any of the founder parties, the Company or any Fenbi group company materially breaches or violates its obligations (including any covenant, agreement, undertaking, representation or warranty) under the Series B purchase agreement or any transaction document,
- there is any adverse change in PRC laws or regulations with respect to the legality, validity and enforceability of any restructuring document and any holder of the Series B preferred shares has discussed in good faith with any of the founders or holders of the ordinary shares regarding any resolution or rectification of such issue but no agreement regarding any such resolution or rectification has been reached among the parties within 30 days of the date of commencement of such discussion,
- any VIE termination event,
- Mr. ZHANG Xiaolong resigns or is terminated from the office or his employment with any Fenbi group company;
- Mr. ZHANG Xiaolong directly or indirectly participates in the operation or management of any person other than a Fenbi group company,
- Mr. ZHANG Xiaolong becomes an employee or consultant on a full-time or part-time basis with any person other than a Fenbi group company,
- the Restructuring (as defined in the Series B purchase agreement) has not been completed in accordance with the restructuring plan (as defined in the Series B purchase agreement) within one hundred eighty (180) days after the first closing (as defined in the Series B purchase agreement), or
- the Company receives any redemption request from any shareholder of the Company, any holder of Series B preferred shares may, at any time thereafter, by written request to the Company (with a copy to other holders of preferred shares of each and all series), require that the Company redeem all or part of the Series B preferred shares then held by such holder of Series B preferred shares in accordance with the Company's articles of association.
- A supplemental agreement has been entered in February 2022 regarding to the clauses:

  The redemption rights shall terminated from the date immediately prior to the Company's submission of the listing application for a qualified IPO, provided that if the Company has not completed such qualified IPO by June 30, 2023, the redemption rights shall be automatically restored.

26 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

(i) The key terms of the convertible preferred shares are as follows: *(Continued)*

(b) Liquidation preferences

Pursuant to the article of association, in the event of any trade sale (including but not limited to an approved sale) and each VIE termination event, any proceeds, whether in cash or properties and whether received by the Company or any member(s), resulting from a trade sale or a VIE termination event shall be distributed in accordance with the terms below:

(1) The holders of the Series B preferred shares (calculated as a single class), pari passu as between themselves, shall be entitled to receive, prior to any distribution to the holders of the Series A preferred shares, the ordinary shares and any other class of shares issued and then outstanding, for each Series B preferred share held by such holder, the amount equal to 120% of the Series B Issue Price, plus all accrued or declared but unpaid dividends on such Series B preferred share (collectively, the "**Series B Preference Amount**").

If the assets and funds legally available for distribution among the holders of the Series B preferred shares shall be insufficient to permit the payment to such holders of the full Series B Preference Amount, then the entire assets and funds legally available for distribution shall be distributed ratably among the holders of the Series B preferred shares based on the aggregate Series B Preference Amount each such holder is otherwise entitled to receive pursuant to the article of association.

(2) If there are any assets or funds remaining after the aggregate Series B Preference Amount have been distributed or paid in full to the holders of Series B preferred shares pursuant to (1) above, the holders of the Series A preferred shares (calculated as a single class), pari passu as between themselves, shall be entitled to receive, prior to any distribution to the holders of the ordinary Shares and any other class of shares issued and then outstanding (other than the Series B preferred shares), for each Series A preferred share held by such holder, the amount equal to 120% of the Series A issue price, plus all accrued or declared but unpaid dividends on such Series A preferred share (collectively, the "**Series A Preference Amount**").

If the assets and funds legally available for distribution among the holders of the Series A preferred shares shall be insufficient to permit the payment to such holders of the full Series A Preference Amount, then the entire remaining assets and funds legally available for distribution shall be distributed ratably among the holders of the Series A preferred shares based on the aggregate Series A Preference Amount each such holder is otherwise entitled to receive.

(3) If there are any assets or funds remaining after the aggregate Series B Preference Amount and the aggregate Series A Preference Amount have been distributed or paid in full to the holders of Series B preferred shares and the holders of Series A preferred shares respectively pursuant to (1) and (2) above, the remaining proceeds, whether in cash or properties and whether received by the Company or any member(s), resulting from a trade sale or a VIE termination event, shall be distributed ratably among all members (including the holders of preferred shares) according to the relative number of ordinary shares held by such member (including preferred shares on an as if converted but otherwise non-diluted basis).

26 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

(i) The key terms of the convertible preferred shares are as follows: *(Continued)*

(b) Liquidation preferences *(Continued)*

The trade sale means any of the following events:

(1) any consolidation, amalgamation, scheme of arrangement, reorganization, merger or other business combination of any Fenbi group company with or into any other person or other corporate reorganization in which the members or shareholders of such Fenbi group company immediately prior to such consolidation, amalgamation, scheme of arrangement, reorganization, merger or other business combination, do not own more than fifty percent (50%) of such surviving entity's voting power or share capital in the aggregate in substantially the same proportions immediately after such consolidation, amalgamation, scheme of arrangement, reorganization, merger, or other business combination, or any transaction or series of related transactions which results in any person or group of related persons holding in excess of fifty percent (50%) of a Fenbi group company's voting power or share capital;

(2) a sale, transfer, lease or other disposition of all or substantially all of the assets of any Fenbi group company (or any series of related transactions resulting in such sale, transfer, lease or other disposition of all or substantially all of the assets of such Fenbi group company); or the transfer or exclusive licensing, in a single transaction or series of related transactions, of all or substantially all of any Fenbi group company's intellectual property to a third party (other than another Fenbi group company).

As the events triggering liquidation preferences in the relevant agreement described above were beyond the control of the Company and the holders of Series A preferred shares, when such events occur, the Company does not have the unconditional right to avoid delivering cash or another financial asset to the holders of Series A preferred shares in settlement of its obligation. Such contingent settlement feature meet the definition of a financial liability under IAS 32, and accordingly Series A preferred shares were designated the entire instruments as convertible preferred shares with the changes in the fair value recognised in profit or loss under the requirements of IFRS.

(c) Voting rights

Each preferred share has voting rights equivalent to the number of ordinary shares into which such preferred shares could be then convertible.

(d) Conversion rights

Unless converted earlier pursuant to the provisions with respect to automatic conversion as set out below, preferred shares shall be convertible, at the option of the holder thereof, at any time into such number of fully paid and non-assessable ordinary shares at an initial conversion ratio of 1:1, and thereafter shall be subject to adjustment and readjustment from time to time as hereinafter provided.

Each preferred share shall automatically be converted, based on the respective then-effective conversion price, without the payment of any additional consideration, into fully-paid and non assessable Class A ordinary shares upon the closing of a qualified IPO.

26 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

(i) The key terms of the convertible preferred shares are as follows: *(Continued)*

(e) Dividends rights

The directors of the Company may declare dividends and distributions on ordinary shares and preferred shares in issue and authorize payment of the dividends or distributions out of the assets of the Company lawfully available therefor.

No dividend or distribution, whether in cash, in property, or in shares of the capital of the Company, shall be declared, paid, set aside or made with respect to the ordinary shares at any time unless all accrued but unpaid dividends on the preferred shares have been paid in full.

Before the qualified IPO, except for an exempted distribution, or as otherwise approved by the board of directors, no dividend or distribution, whether in cash, in property, or in any other shares of the Company, shall be declared, paid, set aside or made. If any dividend or distribution is declared by the board of directors, all accrued or declared but unpaid dividends on the Series B preferred shares, pari passu as between themselves, shall have been paid in full (calculated on as-converted but otherwise non-diluted basis) in priority and in preference to any dividend on the Series A preferred shares and the ordinary shares. Notwithstanding any provision to the contrary, except for an applicable exempted distribution, no dividend or distribution, whether in cash, in property, or in any other shares of the Company, shall be declared, paid, set aside or made with respect to the Ordinary Shares or Series A preferred shares at any time unless a distribution is likewise declared, paid, set aside or made, respectively, at the same time with respect to each issued and outstanding Series B preferred share such that the distribution declared, paid, set aside or made to the holder thereof shall be equal to the distribution that such holder would have received if such Series B preferred share had been converted into Class A ordinary shares immediately prior to the record date for such distribution, or if no such record date is established, the date such distribution is made.

Except as provided above, the Company shall make dividend or distribution to all members pro rata according to the relative number of ordinary shares held by such member (including preferred shares calculated on as-converted but otherwise non diluted basis).

The Group does not bifurcate any embedded derivatives from the host instruments and designated the entire instruments as convertible preferred shares with the changes in the fair value recognised in profit or loss.

No dividend was paid to the holders of preferred shares during the year ended December 31, 2022 and 2021.

On January 9, 2023, the Company completed its IPO on the Main Board of The Stock Exchange of Hong Kong Limited. All convertible preferred shares of the Company were converted into ordinary shares upon completion of the IPO on January 9, 2023 accordingly.

(Expressed in Renminbi Yuan unless otherwise indicated)

26 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

(ii) Movements of convertible preferred shares are:

	Year ended December 31,
Issuance of Series A preferred shares	6,390,956
As at December 31, 2020 and January 1, 2021	6,390,956
Settlement of certain Series A preferred shares *(Note a)*	(754,310)
Issuance of Series B preferred shares	2,525,415
Changes in fair value	795,717
Currency translation differences	(201,614)
As at December 31, 2021	8,756,164
Changes in fair value	2,031,793
Currency translation differences	880,827
As at December 31, 2022	11,668,784

Note a:

Pursuant to the share redemption agreement dated February 25, 2021 entered between the Company and one of the Series A investors, 9,913,400 Series A preferred shares of par value USD0.0001 each held by that investor will be redeemed by the Company at a per share price of USD11.7325, amounting to an aggregate redemption price of USD116,308,965.50 (the "**Redemption Price**"), which shall be cancelled immediately upon such redemption by the Company at the closing. The redemption was approved by the board of directors of the Company and the shareholder meeting and completed in March 2021.

26 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

(iii) The Group applied the discounted cash flow method to determine the underlying equity value of the Company and adopted option pricing method and equity allocation model to determine the fair value of the convertible preferred shares. Key assumptions used to determine the fair value of convertible preferred shares are as follows:

	As at December 31,	
	2022	2021
Discount rate (%)	**13.0%**	13.5%
Expected volatility (%)	**51.89%–58.63%**	49.68%–50.89%
Discount for lack of marketability ("**DLOM**")	**2%–19%**	10%–20%

Discount rate was estimated by weighted average cost of capital of each valuation date. The Group estimated the risk-free interest rate used in the equity allocation with reference to the yield of U.S. Government Bonds at that time close to the timing as of valuation date. Volatility was estimated based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise. The DLOM was estimated based on the option pricing method. Under the option pricing method, the cost of put option, which can hedge the price change before the privately held share can be sold, was considered as a basis to determine the lack of marketability discount.

Management considered that fair value changes in the Preferred Shares that are attributable to changes of credit risk of this liability are not significant.

27 REFUND LIABILITIES

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Refund liabilities		
Arising from right of refund	**275,024**	680,293

The refund liabilities relate to customers' right of refund prepaid course fee or in some case refund course fee where related service is already provided. For more details, please refer to Note 4(b).

28 DEFERRED INCOME TAX

The deferred income tax assets balance as at December 31, 2022 is RMB37,467,000 (2021: RMB64,808,000).

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Deferred income tax assets:		
to be recovered after more than 12 months	**31,685**	56,943
to be recovered within 12 months	**5,782**	8,132
Total deferred tax assets	**37,467**	65,075
Set-off of deferred tax liabilities pursuant to set-off provisions	**–**	(267)
Net deferred tax assets	**37,467**	64,808
Deferred income tax liabilities:		
to be recovered after more than 12 months	**–**	(267)
to be recovered within 12 months	**–**	–
Total deferred tax liabilities	**–**	(267)
Set-off of deferred tax liabilities pursuant to set-off provisions	**–**	267
Net deferred tax liabilities	**–**	–

Note a:

Tax losses

	For the year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Unused tax losses for which no deferred tax asset has been recognised	**23,697**	166,174

The unused tax losses were incurred by subsidiaries that is not likely to generate taxable income in the foreseeable future. The tax losses shall expire in five years from year of occurrence under current tax legislation.

28 DEFERRED INCOME TAX *(Continued)*

Movements in deferred income tax assets and deferred income tax liabilities during the year are as follows:

Deferred income tax assets	Tax losses RMB'000
As at January 1, 2021	40,238
Charged to profit or loss	24,837
As at December 31, 2021	65,075
Credited to profit or loss	(27,608)
As at December 31, 2022	**37,467**

Deferred income tax liabilities	Unrealised investment income RMB'000
As at January 1, 2021	(245)
Charged to profit or loss	(22)
As at December 31, 2021	(267)
Credited to profit or loss	267
As at December 31, 2022	**–**

29 DIVIDENDS

The Board did not propose a final dividend during the year ended December 31, 2022 and 2021.

30 CASH FLOW INFORMATION

(a) Cash generated from operations

	Notes	Year ended December 31, 2022 RMB'000	2021 RMB'000
Loss before income tax		**(2,045,526)**	(2,057,929)
Adjustments for:			
Depreciation of property, plant and equipment	13	**58,517**	78,000
Amortisation of intangible assets	14	**113**	98
Depreciation of right-of-use assets	15	**101,573**	214,389
Losses on disposal of property, plant and equipment	7	**8,234**	3,660
Fair value losses on financial liabilities at fair value through profit or loss		**2,031,793**	582,957
Loss on settlement of financial liabilities at fair value through profit or loss		**—**	212,760
Fair value gains on financial assets at fair value through profit or loss	20	**(8,863)**	(19,507)
Net fair value losses on derivatives	7	**17,480**	—
Finance cost, net	10	**32,876**	17,699
Impairment losses on financial assets and contract asset		**324**	641
Losses on disposal of leasehold improvement	13	**32,107**	26,448
Gain on disposal of right-of-use assets	(a)	**(20,337)**	(19,672)
Non-cash employee benefits expense — share based payments	9	**201,680**	325,542
Change in operating assets and liabilities:			
Decrease/(increase) in trade receivables and prepayment and other receivables		**43,301**	(37,337)
Decrease/(increase) in contract assets		**11,613**	(20,528)
Increase in inventories		**(6,976)**	(13,348)
(Decrease)/Increase in contract liabilities		**(51,328)**	13,091
Decrease in refund liabilities		**(405,269)**	(77,459)
(Decrease)/increase in trade and other payable		**(74,773)**	832
Payment for value previously recorded in equity — employee share option plan	23	**—**	(112,983)
Cash used in operations		**(73,461)**	(882,646)

Note (a): The adjustments did not include the penalty losses of RMB17,862,000 in operating cashflows as a result of the early terminations of lease agreements for the year ended December 31, 2022 (2021: RMB24,523,000).

30 CASH FLOW INFORMATION *(Continued)*

(b) Net debts reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the reporting periods.

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Net debts		
Cash and cash equivalents	**1,047,402**	1,159,867
Liquid investment *(i)*	**61,104**	10,139
Financial liabilities at fair value through profit or loss	**(11,673,715)**	(8,756,164)
Lease liabilities	**(164,278)**	(435,688)
Net debts	**(10,729,487)**	(8,021,846)
Cash and liquid investments	**1,108,506**	1,170,006
Gross assets — fixed interest rates	**(11,837,993)**	(9,191,852)
Net debts	**(10,729,487)**	(8,021,846)

(i) Liquid investments comprise current investments that are investment in wealth management products that usually held for several days or over one year, being the Group's financial assets held at fair value through profit or loss (see note 20), and current investments that are investment in wealth management products that held at amortized cost.

30 CASH FLOW INFORMATION *(Continued)*

(b) Net debts reconciliation *(Continued)*

	Other assets	Liabilities from financing activities			
	Liquid investment RMB'000	Lease liabilities RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Borrowings RMB'000	Total RMB'000
Net debt as at January 1, 2021	351,639	(307,315)	(6,390,956)	–	(6,346,632)
Cash flows	(361,007)	177,907	(1,771,105)	–	(1,954,205)
Additions	–	(460,437)	–	–	(460,437)
Accrual interest for lease liabilities	–	(20,003)	–	–	(20,003)
Other changes	19,507	174,160	(594,103)	–	(400,436)
Net debt as at December 31, 2021	10,139	(435,688)	(8,756,164)	–	(9,181,713)
Cash flows	**42,859**	**96,716**	**–**	**–**	**139,575**
Additions	**–**	**(19,017)**	**–**	**(54,530)**	**(73,547)**
Accrual interest for lease liabilities	**–**	**(11,825)**	**–**	**–**	**(11,825)**
Other changes	**8,106**	**205,536**	**(2,917,551)**	**–**	**(2,703,909)**
Repayments	**–**	**–**	**–**	**54,530**	**54,530**
Net debt as at December 31, 2022	**61,104**	**(164,278)**	**(11,673,715)**	**–**	**(11,776,889)**

(c) Non-cash investing and financing activities

Non-cash investing and financing activities disclosed in other notes are:

Details of acquisition of right-of-use assets were disclosed in Note 15 (i).

Details of share options granted to participants under the ESOPs without cash considerations were disclosed in Note 23.

Details of the non-cash financing activities related to the issuance of ordinary shares and preferred shares were disclosed in Note 24 and Note 26.

31 CONTINGENCIES

As at December 31, 2022 and 2021, the Group did not have any significant contingent liabilities.

32 COMMITMENTS

As at December 31, 2022 and 2021, the Group did not have any significant capital commitments.

33 RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties

Name of the related parties	Nature of relationship
Beijing Yuanli Education Technology Co., Ltd.	A subsidiary indirectly controlled by YUAN Inc
Beijing YuanLi Future Technology Co., Ltd.	A subsidiary indirectly controlled by YUAN Inc
Tencent Cloud Computing (Beijing) Co., Ltd.	A subsidiary of Tencent, a shareholder of the Group
Tenpay Payment Technology Co., Ltd.	A subsidiary of Tencent, a shareholder of the Group
Beijing Fenbi Zhiwuya Technology Co., Ltd.	A subsidiary indirectly controlled by YUAN Inc

* The English names of certain companies referred to above represent the best efforts made by management of the Company to directly translate the Chinese names as they have not registered any official English names.

(b) Transactions with related parties

During the reporting periods presented, the Group had the following significant transactions with related parties.

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Sales of goods and services:		
Beijing Yuanli Education Technology Co., Ltd. *(i)*	**824**	608
Beijing Yuanli Education Technology Co., Ltd. *(ii)*	**1,141**	—
	1,965	608

(i) This related party transaction represents revenue from providing training services.

(ii) This related party transaction represents revenue from providing printing services.

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Purchases of goods and services:		
Tencent Cloud Computing (Beijing) Co., Ltd. *(i)*	**10,521**	9,011
Tenpay Payment Technology Co., Ltd. *(ii)*	**6,818**	8,982
Beijing Yuanli Education Technology Co., Ltd. *(iii)*	**2**	414
Beijing YuanLi Future Technology Co., Ltd. *(iii)*	**—**	44
	17,341	18,451

(i) This related party transaction represents cost paid to the related cloud store service.

(ii) This related party transaction represents cost paid to the related payment service.

(iii) This related party transaction represents cost paid for purchase of raw materials and electronic equipment.

33 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Outstanding balances due from related parties

Balances due from related parties	As at December 31, 2022 RMB'000	As at December 31, 2021 RMB'000
Trade		
Tencent Cloud Computing (Beijing) Co., Ltd.	**2,840**	2,992
Beijing Fenbi Zhiwuya Technology Co., Ltd.	**3**	1
	2,843	2,993

(d) Key management personnel compensation

Key management compensation other than those relating to the emoluments of the directors of the company being disclosed are set out below:

	Year ended December 31, 2022 RMB'000	Year ended December 31, 2021 RMB'000
Wages, salaries and bonuses	**6,052**	4,601
Contributions to pension plans	**189**	158
Welfare and other expenses	**243**	231
Share-based compensation expenses	**56,900**	87,263
	63,384	92,253

34 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each Director and the chief executive officer for the period ended December 31, 2022 are set out below:

For the years ended December 31, 2022	Notes	Salary RMB'000	Discretionary bonus RMB'000	Contribution to pension plan RMB'000	Welfare, medical and other expenses RMB'000	Share-based Compensation expenses RMB'000	Total RMB'000
Mr. ZHANG Xiaolong	(i)	**1,200**	**200**	**58**	**81**	**–**	**1,539**
Mr. WEI Liang	(ii)	**1,200**	**200**	**58**	**81**	**39,955**	**41,494**
Mr. ZUO, Lingye	(iii)	**–**	**–**	**–**	**–**	**–**	**–**
Mr. CAO Wei	(iv)	**–**	**–**	**–**	**–**	**–**	**–**
Mr. DU Nan	(v)	**–**	**–**	**–**	**–**	**–**	**–**
Mr. NIU Kuiguang	(vi)	**–**	**–**	**–**	**–**	**–**	**–**
Mr. LI Yong	(ix)	**–**	**–**	**–**	**–**	**–**	**–**
Mr. LI Xin	(x)	**–**	**–**	**–**	**–**	**–**	**–**
Mr. LI Zhaohui	(xi)	**–**	**–**	**–**	**–**	**–**	**–**
Total		**2,400**	**400**	**116**	**162**	**39,955**	**43,033**

The remuneration of each Director and the chief executive officer for the period ended December 31, 2021 are set out below:

For the years ended December 31, 2021	Notes	Salary RMB'000	Discretionary bonus RMB'000	Contribution to pension plan RMB'000	Welfare, medical and other expenses RMB'000	Share-based Compensation expenses RMB'000	Total RMB'000
Mr. ZHANG Xiaolong	(i)	1,110	100	53	77	–	1,340
Mr. WEI Liang	(ii)	850	108	53	77	110,700	111,788
Mr. ZUO, Lingye	(iii)	–	–	–	–	–	–
Mr. CAO Wei	(iv)	–	–	–	–	–	–
Mr. DU Nan	(v)	–	–	–	–	–	–
Mr. NIU Kuiguang	(vi)	–	–	–	–	–	–
Mr. LI, Xiaojun	(vii)	–	–	–	–	–	–
Mr. DING Yi Gordon	(viii)	–	–	–	–	–	–
Mr. LI Yong	(ix)	–	–	–	–	–	–
Mr. LI Xin	(x)	–	–	–	–	–	–
Mr. LI Zhaohui	(xi)	–	–	–	–	–	–
Total		1,960	208	106	154	110,700	113,128

34 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' emoluments *(Continued)*

Notes:

(i) Mr. ZHANG Xiaolong was appointed as a director and chief executive officer of the Company with effect from December 14, 2020.

(ii) Mr. WEI Liang was appointed as a director and chief technology officer of the Company with effect from December 31, 2020.

(iii) Mr. ZUO Lingye was appointed as a director of the Company with effect from December 31, 2020 and resigned at February 18, 2022 due to personal reason.

(iv) Mr. CAO Wei was appointed as a director of the Company with effect from December 31, 2020 and resigned at February 18, 2022 due to personal reason.

(v) Mr. DU Nan was appointed as a director of the Company with effect from March 3, 2021 and resigned at February 18, 2022 due to personal reason.

(vi) Mr. NIU Kuiguang was appointed as a director of the Company with effect from March 3, 2021 and resigned at February 18, 2022 due to personal reason.

(vii) Mr. LI Xiaojun was appointed as a director of the Company with effect from December 31, 2020 and resigned at March 3, 2021 due to personal reason.

(viii) Mr. DING Yi Gordon was appointed as a director of the Company with effect from December 31, 2020 and resigned at March 3, 2021 due to personal reason.

(ix) Mr. LI Yong was appointed as a director of the Company with effect from December 31, 2020.

(x) Mr. LI Xin was appointed as a director of the Company with effect from December 31, 2020.

(xi) Mr. LI Zhaohui was appointed as a director of the Company with effect from December 31, 2020.

(xii) Mr. QIU Dongxiao, Mr. YUEN Kai Yiu Kelvin and Ms. YUAN Jia were appointed as the Company's independent non-executive Directors on January 9, 2023. No emoluments have been paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

No Director waived or has agreed to waive any emoluments.

34 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Directors' retirement benefits

During the year ended December 31, 2022, no retirement benefits were paid or receivable by any directors in respect of their services in connection with the management of the affairs of the Company or its subsidiary undertaking (2021: nil).

(c) Directors' termination benefits

During the year ended December 31, 2022, no payments was made to directors as compensation for early termination of the appointment (2021: nil).

(d) Consideration provided to third parties for making available directors' service

During the year ended December 31, 2022, no payment was made to the former employer of directors or third parties for making available the services as a director of the Company (2021: nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended December 31, 2022, there are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors (2021: nil).

(f) Directors' material interests in transactions, arrangements or contracts

During the year ended December 31, 2022, no significant transaction, arrangement and contract in relation to the Group's business to which the Group companies were parties and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time of the year (2021: nil).

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance Sheet of the Company

	Notes	As at December 31, 2022 RMB'000	2021 RMB'000
Assets			
Non-current assets			
Investments in subsidiaries		**9,823,993**	9,622,312
Total non-current assets		**9,823,993**	9,622,312
Current assets			
Cash and cash equivalents		**5,207**	16,434
Prepayment and other receivables		**1,655,764**	1,526,904
Total current assets		**1,660,971**	1,543,338
Total assets		**11,484,964**	11,165,650
Equity/(deficit)			
Equity/(deficit) attributable to owners of the Company			
Share capital		**47**	47
Share premium	(a)	**2,648,395**	2,648,395
Other reserves	(a)	**17,608**	555,148
Accumulated losses	(a)	**(2,887,028)**	(804,846)
Total (deficit)/equity		**(220,978)**	2,398,744
Liabilities			
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**11,668,784**	8,756,164
Total non-current liabilities		**11,668,784**	8,756,164
Current liabilities			
Trade and other payables		**37,158**	10,742
Total current liabilities		**37,158**	10,742
Total liabilities		**11,705,942**	8,766,906
Total (deficit)/equity and liabilities		**11,484,964**	11,165,650

The balance sheet of the Company was approved by the Board of Directors on 28 March 2023 and was signed on its behalf:

ZHANG Xiaolong **WEI Liang**

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(a) Reserve movement of the Company

	Share premium RMB'000	Share-based payment reserves RMB'000	Other comprehensive income RMB'000	Accumulated losses RMB'000	Total RMB'000
As at January 1, 2022	**2,648,395**	**380,094**	**175,054**	**(804,846)**	**2,398,697**
Loss for the year	**–**	**–**	**–**	**(2,082,182)**	**(2,082,182)**
Share-based compensation *(Note 9)*	**–**	**201,680**	**–**	**–**	**201,680**
Currency translation differences	**–**	**–**	**(739,220)**	**–**	**(739,220)**
As at December 31, 2022	**2,648,395**	**581,774**	**(564,166)**	**(2,887,028)**	**(221,025)**
As at January 1, 2021	2,307,991	167,535	–	–	2,475,526
Loss for the year	–	–	–	(804,846)	(804,846)
Share-based compensation *(Note 9)*	–	325,542	–	–	325,542
Employee share option plan — repurchase value *(Note 23)*	–	(112,983)	–	–	(112,983)
Issue of ordinary shares *(Note 22)*	340,404	–	–	–	340,404
Currency translation differences	–	–	175,054	–	175,054
As at December 31, 2021	2,648,395	380,094	175,054	(804,846)	2,398,697

(Expressed in Renminbi Yuan unless otherwise indicated)

36 SUBSIDIARIES

As at the date of this report, the Company has direct or indirect interests in the following companies:

Name of companies	Place and date of incorporation/ establishment and kind of legal entity	Registered capital	Effective interests held as at As at December 31, 2022	2021	Principal activities
Directly held by the Company					
Fenbi Education Technology (HK) Limited.	Hong Kong/ January 15, 2021/ Limited liability company	HKD1	**100%**	100%	Holding Company
Indirectly held by the Company					
Beijing Fenbi Bluesky Technology Co., Ltd. (北京粉筆藍天科技有限公司)	PRC Mainland China/ February 25, 2015/Limited liability company	RMB10,000,000	**100%**	100%	Provision of education and training services
Beijing Fenbi Tianxia Culture Communication Co., Ltd. (北京粉筆天下文化傳播有限公司, "**Beijing Fenbi Tianxia Culture**")	PRC Mainland China/ March 25, 2016/ Limited liability company	RMB10,000,000	**100%**	100%	Sales of books
Beijing Fenbi Tianxia Education Technology Co., Ltd. (北京粉筆天下教育科技有限公司, "**Beijing Fenbi Tianxia Education**")	PRC Mainland China/ November 15, 2016/ Limited liability company	RMB10,000,000	**100%**	100%	Provision of education and training services
Nanjing Youxue Culture Media Co., Ltd. (南京優學文化傳媒有限公司)	PRC Mainland China/ June 5, 2018/ Limited liability company	RMB1,000,000	**–**	100%	Provision of education and training services
Shandong Lancai Tianxia Education Technology Co., Ltd. (山東藍彩天下教育科技有限公司)	PRC Mainland China/ October 27, 2020/ Limited liability company	RMB10,000,000	**100%**	100%	Manufacturing books
Beijing Shengshi Jintu Culture Communication Co., Ltd. (北京盛世金圖文化傳播有限公司)	PRC Mainland China/ June 15, 2005/ Limited liability company	RMB2,000,000	**100%**	100%	Sales of books

(Expressed in Renminbi Yuan unless otherwise indicated)

36 SUBSIDIARIES *(Continued)*

Name of companies	Place and date of incorporation/ establishment and kind of legal entity	Registered capital	Effective interests held as at As at December 31, 2022	2021	Principal activities
Zhejiang Huacai Fenbi Education Technology Co., Ltd. (浙江華才粉筆教育科技有限公司)	PRC Mainland China/ December 17, 2018/ Limited liability company	RMB5,000,000	**100%**	100%	Provision of education and training services
Jiangsu Fenbi Training Center Co., Ltd. (江蘇粉筆培訓中心有限公司)	PRC Mainland China/ April 15, 2021/ Limited liability company	RMB10,000,000	**100%**	100%	Provision of education and training services
Sichuan Yinmei world Technology Co., Ltd. (四川印美天下科技有限公司)	PRC Mainland China/ August 9, 2021/ Limited liability company	RMB5,000,000	**–**	100%	Provision of education and training services
Qingdao West Coast New Area Fenbi Tianxia Culture Training School Co., Ltd.(青島西海岸新區粉筆天下文化培訓學校有限公司)	PRC Mainland China/ January 4, 2021/ Limited liability company	RMB400,000	**–**	100%	Provision of education and training services
Chongqing Fenyou Bixing Education Technology Co., Ltd. (重慶粉優筆行教育科技有限公司)	PRC Mainland China/ January 21, 2021/ Limited liability company	RMB5,000,000	**100%**	100%	Provision of education and training services
Shanghai Bizhuo Technology Co., Ltd. (上海筆灼科技有限公司)	PRC Mainland China/ June 10, 2021/ Limited liability company	RMB1,000,000	**100%**	100%	Provision of technical services
Yuxi Bilan Education Training School Co., Ltd.(玉溪筆藍教育培訓學校有限公司)	PRC Mainland China/ March 23, 2021/ Limited liability company	RMB500,000	**100%**	100%	Provision of education and training services
Beijing Fenbi ShangAn Technology Co., Ltd.(北京粉筆上岸科技有限公司, "**Fenbi ShangAn**")	PRC Mainland China/ April 9, 2021/ Limited liability company	USD10,000,000	**100%**	100%	Provision of education and training services

(Expressed in Renminbi Yuan unless otherwise indicated)

36 SUBSIDIARIES *(Continued)*

Name of companies	Place and date of incorporation/ establishment and kind of legal entity	Registered capital	Effective interests held as at As at December 31, 2022	2021	Principal activities
Beijing Fenbi ChuXin Technology Co., Ltd. (北京粉筆初心科技有限公司, "**Fenbi ChuXin**")	PRC Mainland China/ July 22, 2021/ Limited liability company	USD10,000,000	**100%**	100%	Provision of education and training services
Diqing Bilan Education Training Co., Ltd. (迪慶筆藍教育培訓有限公司)	PRC Mainland China/ August 24, 2021/ Limited liability company	RMB500,000	**100%**	100%	Provision of education and training services
Tianjin Fenshu Bimeng Training School Co., Ltd. (天津粉書筆夢培訓學校有限公司)	PRC Mainland China/ July 23, 2021/ Limited liability company	RMB5,000,000	**–**	100%	Provision of education and training services
Anhui Fenbi Tianxia Training School Co., Ltd. (安徽粉筆天下培訓學校有限公司)	PRC Mainland China/ March 18, 2021/ Limited liability company	RMB5,000,000	**100%**	100%	Provision of education and training services
Beijing Fenbi Planet Technology Co., Ltd. (北京粉筆星球科技有限公司)	PRC Mainland China/ June 15, 2022/ Limited liability company	RMB10,000,000	**100%**	–	Provision of education and training services

* The English name of certain subsidiaries referred to above represent the best efforts made by management of the Company to directly translate the Chinese names as they have not registered any official English names.

37 SUBSEQUENT EVENTS

On January 9, 2023, the Company completed its initial public offering ("**IPO**") on the Main Board of The Stock Exchange of Hong Kong Limited with initial offering of 20,000,000 shares at a price of Hong Kong Dollar 9.90 per share.

According to the terms and conditions of the convertible preferred shares in Note 26, each convertible preferred share should be automatically converted, based on the respective then-effective conversion price, without the payment of any additional consideration, into fully-paid and non assessable ordinary shares upon the closing of IPO. All convertible preferred shares of the Company were converted into ordinary shares upon completion of the IPO on January 9, 2023 accordingly. The differences of the fair value related to the convertible preferred shares between December 31, 2022 and the date of the conversion were then recognised in the profit or loss subsequent to the year end.

Definition

"AGM"	the annual general meeting of the Company to be held on June 14, 2023 or any adjournment thereof
"Articles of Association" or "Articles"	the articles of association of the Company, as amended from time to time
"Audit Committee"	the audit committee of the Board
"Beijing Fenbi Box"	Beijing Fenbi Box Enterprise Management LLP (北京粉筆盒子企業管理合夥企業(有限合夥)) is an employee shareholding platform of the Group
"Board Committees"	collectively, the Audit Committee, the Remuneration Committee and the Nomination Committee
"Board of Directors" or "Board"	the board of directors of our Company
"Cayman Companies Act"	the Companies Act (As Revised) of the Cayman Islands as amended, supplemented, or otherwise modified from time to time
"CG Code"	the Corporate Governance Code as set out in Part 2 of Appendix 14 to the Listing Rules
"China," "Mainland China" or "PRC"	People's Republic of China, excluding, for the purposes of this annual report and for geographical reference only and except where the context requires otherwise, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Company," "our Company," "Fenbi," "Group," "our Group," "we" or "us"	Fenbi Ltd. (粉筆有限公司), formerly known successively as Fenbi Education Technology Ltd. and Fenbi Technology Ltd., an exempted company incorporated under the laws of Cayman Islands with limited liability on December 14, 2020, and, except where the context indicated otherwise, all of its subsidiaries, or with respect to the period before our Company became the holding company of our current subsidiaries, the business operated by our present subsidiaries or their predecessors (as the case may be)
"Contractual Arrangements"	a series of contractual arrangements we entered into to allow our Company to exercise control over the business operation of the Consolidated Affiliated Entities and enjoy all the economic interests derived therefrom
"controlling shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"COVID-19"	an infectious disease caused by a newly discovered coronavirus (severe acute respiratory syndrome coronavirus)
"Director(s)"	the director(s) of our Company
"Fenbi Bluesky"	Beijing Fenbi Bluesky Technology Co., Ltd. (北京粉筆藍天科技有限公司), a limited liability company established under the laws of the PRC on February 25, 2015, and one of the Consolidated Affiliated Entities
"Fenbi ChuXin"	Beijing Fenbi ChuXin Technology Co., Ltd. (北京粉筆初心科技有限公司), a limited liability company established under the laws of the PRC on July 22, 2021 and an indirect wholly-owned subsidiary of the Company

"Fenbi ShangAn"	Beijing Fenbi ShangAn Technology Co., Ltd. (北京粉筆上岸科技有限公司), a limited liability company established under the laws of the PRC on April 9, 2021 and an indirect wholly-owned subsidiary of the Company
"Global Offering"	the Hong Kong public offering and the international offering of the Company
"HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards
"IPO"	initial public offering
"Lancai Tianxia"	Shandong Lancai Tianxia Education Technology Co., Ltd. (山東藍彩天下教育科技有限公司), a limited liability company established under the laws of the PRC on October 27, 2020, and one of the Consolidated Affiliated Entities
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	January 9, 2023, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"Mr. Zhang"	Mr. ZHANG Xiaolong (張小龍), our chairman of the Board, executive Director, chief executive officer and one of the Controlling Shareholders
"Nomination Committee"	the nomination committee of the Board
"Pre-IPO Share Option Scheme"	the pre-IPO equity incentive scheme adopted by the Company on December 31, 2020, as amended from time to time, the principal terms of which are summarized in "Statutory and General Information — D. Pre-IPO Share Option Scheme" in Appendix IV to the Prospectus
"Prospectus"	the prospectus of the Company dated December 23, 2022
"Registered Shareholders"	the registered shareholders of Fenbi Bluesky
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	the lawful currency of the PRC
"Reporting Period"	the year ended December 31, 2022

Definition

"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of the Company with a par value of US$0.0001 each
"Shareholder(s)"	holder(s) of our Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Tencent Computer"	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司)
"Tianxia Culture"	Beijing Fenbi Tianxia Culture Communication Co., Ltd. (北京粉筆天下文化傳播有限公司), a limited liability company established under the laws of the PRC on March 25, 2016 and an indirect wholly-owned subsidiary of the Company
"Tianxia Education"	Beijing Fenbi Tianxia Education Technology Co., Ltd. (北京粉筆天下教育科技有限公司), a limited liability company established under the laws of the PRC on November 15, 2016 and an indirect wholly-owned subsidiary of the Company
"USD" or "US$"	US dollars, the lawful currency of the United States
"United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"WL Family Trust"	the discretionary trust established by Mr. WEI Liang as the settlor and the protector, with Ocorian Trust Company as the trustee, details of which are set out in "History, Reorganization and Corporate Structure" in the Prospectus
"YLBJ"	Beijing Yuanli Education Technology Co., Ltd. (北京猿力教育科技有限公司), a limited liability company established under the laws of the PRC
"ZXL Family Trust"	the discretionary trust established by Mr. ZHANG Xiaolong as the settlor and the protector, with Ocorian Trust Company as the trustee, details of which are set out in "History, Reorganization and Corporate Structure" in the Prospectus