The following discussion and our analysis should be read in conjunction with our consolidated financial statements included in the Accountant's Report in Appendix I, together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including but not limited to the sections headed "Risk Factors" and "Business".

For the purposes of this section, unless the context otherwise requires, references to 2019, 2020 and 2021 refer to our fiscal years ended December 31 of such years.

OVERVIEW

We principally engage in the sales of refurbished de-commissioned IT devices to, among others, resellers of IT devices, and the provision of device and IT technical subscription services to SMEs in China, as a DLM solution provider. According to CIC, we are the first company in China to have built a DLM business model covering both long-term and short-term subscription period and major phases in device lifecycle. Our revenue from DLM solutions during the Track Record Period was primarily generated from (i) device recycling business, contributing over 60% of our revenue with gross margin ranging from 0.1% to 6.5% during the Track Record Period, through which we purchase de-commissioned devices from enterprises and provide data removal services at the enterprises' options. The device recycling business provides us with a stable source of de-commissioned devices, which will either be used for our device subscription business or be sold via our proprietary quotation platform or e-commerce platforms; and (ii) device and IT technical subscription services, contributing the rest of our revenue during the Track Record Period, through which we provide devices and IT technical support services to enterprises to satisfy their needs for diverse business scenarios. Device subscription business improved from gross loss of 17.4% in 2019 to gross margin of 23.2% in 2021 while gross margin of IT technical subscription business dropped from 81.6% in 2019 to 72.9% in 2021.

While our device development SaaS launched in 2018 only generated an insignificant amount of revenue during the Track Record Period, it helps enterprises manage their devices on a one-stop platform with a broad spectrum of functionalities and recommends appropriate services (device recycling as well as device and IT technical subscriptions) to satisfy their needs.

During the Track Record Period, our revenue was generated primarily from the following service categories:

- *Device recycling business*. We purchase de-commissioned IT devices from enterprises for use in our device subscription services after refurbishment, or sale through our proprietary quotation platform. Some of the de-commissioned devices are also sold through external e-commerce platforms after refurbishment. In addition to recycling of enterprises' de-commissioned devices, we remove and destroy data on IT devices in secure manners at the enterprise users' options, without charging any fees for such services. We typically target large-scale enterprises as upstream suppliers of de-commissioned IT devices, especially Internet companies including, among others, our strategic Shareholders and business partners JD.com and Lenovo. 2017 represented a milestone year of our device recycling business as we established a team dedicated to develop our network of upstream enterprise suppliers and downstream customers for de-commissioned devices, which are primarily enterprises engaged in the trading of de-commissioned IT devices.

- *Device subscription services*. Our device subscription services primarily include selecting IT devices (including brand new devices and de-commissioned devices after refurbishment) suitable for users, assembling devices, pre-installing device configurations and customizing system settings. We offer tailor-made short-term and long-term device subscription services to satisfy our customers' needs for diverse business scenarios, which commenced in 2008 and 2013, respectively. Furthermore, our self-owned devices are purchased with the intention to be held and have been held solely for our device subscription business during the Track Record Period. When such devices approach the end of their useful lives, as part of our fixed assets management, they can be disposed of in different ways, among which, through our own quotation platform or e-commerce platforms, to recover their residual value. We would also consider selling used devices for subscription before the end of their useful lives provided that the particular devices (i) could not generate the required level of subscription income when there are more advanced models of such devices which in turn would exert downward pressure on the subscription price of existing models, or (ii) have been subject to wear-and-tear during their useful lives and the repair costs would exceed the expected subscription income to be generated during rest of their useful lives. We typically target SMEs for our subscription services.

- *IT technical subscription services*. We offer IT technical subscription services primarily coupled with device subscription services and, to a lesser extent, on a standalone basis, primarily including solving problems in IT devices and keeping devices on the cutting edge of technology through system upgrades. We typically target SMEs for our subscription services.

In 2018, we launched our device management SaaS. While our device management SaaS only generated an insignificant amount of revenue during the Track Record Period, it helps enterprises manage their devices on a one-stop platform with a broad spectrum of functionalities and recommends appropriate services (device recycling as well as device and IT technical subscriptions) to satisfy their needs. Through digitalization, SaaS helps enterprises solve their problems and difficulties encountered during their IT device management through a centralized software application. Such issues and difficulties include the lack of technical teams responsible for the operation and maintenance and from-time-to-time urgent needs for prompt technical support. Our self-developed software application, Bear Butler, enables our customers to manage the procurement, allocation, repairment, maintenance and disposal of their IT devices, either in-house or provided by us to our device subscription service customers.

During the Track Record Period, we experienced significant growth in our business operations and an increase in demand for our DLM solutions. Our revenue increased from RMB500.3 million in 2019 to RMB1,022.2 million in 2020, and further increased to RMB1,330.4 million in 2021, representing a CAGR of 63.1%. Furthermore, our revenue increased by 59.1% from RMB536.9 million for the six months ended June 30, 2021 to RMB854.0 million for the six months ended June 30, 2022. Our gross profit increased from RMB80.1 million in 2019 to RMB146.9 million in 2020, and further increased to RMB193.1 million in 2021, representing a CAGR of 55.3%. Furthermore, our gross profit increased by 2.4% from RMB97.2 million for the six months ended June 30, 2021 to RMB99.6 million for the six months ended June 30, 2022. Our adjusted EBITDA, which is a non-IFRS measure, reached RMB36.9 million, RMB164.5 million and RMB224.0 million, respectively, for the years ended December 31, 2019, 2020 and 2021, representing a CAGR of 146.6%, and reached RMB110.5 million and RMB127.5 million for the six months ended June 30, 2021 and 2022, respectively, representing an increase of 15.4%.

We recorded accumulated losses of RMB58.7 million, RMB236.3 million, RMB687.4 million, RMB504.4 million and RMB693.2 million as of December 31, 2019, 2020 and 2021 and June 30, 2021 and 2022, respectively. We recorded net losses of RMB60.3 million, RMB177.1 million, RMB448.7 million, RMB268.1 million and RMB5.8 million in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively. We recorded net assets of RMB9.7 million as of December 31, 2019 and net liabilities of RMB169.9 million, RMB630.2 million and RMB612.5 million as of December 31, 2020, December 31, 2021 and June 30, 2022, respectively.

BASIS OF PRESENTATION

Our Company was incorporated as an exempted company in the Cayman Islands with limited liability on January 10, 2022. Pursuant to the Reorganization as more fully explained in "History, Reorganization and Corporate Structure – Reorganization", the Company became the holding company of the Group after a series of the transactions for the purpose of the Reorganization. As the Reorganization only involved inserting new holding companies at the top of an existing company and has not resulted in a change of respective voting and beneficial interests, the historical financial information for the Track Record Period has been presented as a continuation of the then holding company by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Track Record Period.

The consolidated historical financial information has been prepared in accordance with all applicable IFRS which includes all applicable individual IFRS, International Accounting Standards and Interpretations issued by the International Accounting Standards Board.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, many of which are outside of our control. These factors primarily include the followings:

General Factors

Our business and results of operations are impacted by general factors affecting the DLM industry in China, including:

- the overall economic condition in China;
- growth and development of the DLM industry in China and targeted marketing;
- competition in the DLM industry in China;
- the advancement in technologies affecting the DLM industry; and
- governmental policies, initiatives and incentives affecting the DLM industry.

Any unfavorable change in any of these general industry conditions may have a negative impact on the demand for our services, and materially affect our results of operations.

Company Specific Factors

Our ability to expand our customer base

The number of customers is crucial to our results of operations and continued revenue growth. Our revenue increased from RMB500.3 million in 2019 to RMB1,022.2 million in 2020, and further to RMB1,330.4 million in 2021, mainly due to the increase in the number of KA customers, which contributed to a majority of our revenue. Furthermore, our revenue increased from RMB536.9 million for the six months ended June 30, 2021 to RMB854.0 million for the six months ended June 30, 2022 due to the same reason. As of December 31, 2019, 2020 and 2021 and June 30, 2021 and 2022, we served 513, 706, 1,098, 1,098 and 1,387 KA customers, respectively. The revenue generated from KA customers amounted to 16.8%, 12.9%, 17.9%, 22.2% and 17.0% of our total revenue and 42.6%, 51.3%, 58.7%, 66.5% and 65.2% of the revenue from device subscription services and IT technical subscription services in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively.

We promote our brand and attract new customers primarily through (i) direct sales efforts, (ii) user traffic gained from our strategic Shareholders and business partners, (iii) advertisements on search engines and (iv) referrals by our existing customers. Continued expansion of our customer base through these means also helps strengthen our brand and reputation, thereby attracting more customers to our comprehensive DLM solutions for management of devices. Going forward, we believe our success will continue to largely depend on our ability to further expand our customer base through offering effective DLM solutions and services.

Our ability to increase customer retention rate and cross-selling to drive fast growth of our business

Since we first launched our short-term and long-term device subscription programs in 2008 and 2013, respectively, we have achieved initial success in customer acceptance of our services. As of December 31, 2019, 2020 and 2021, we maintained high KA customer retention rate of 78.9%, 80.3% and 84.2%, respectively. As we continue to focus on expanding the customer base, we have been and will continue upgrading and optimizing our existing DLM solutions and services to address our customers' evolving business needs.

In addition, our business strategy involves diversifying our offerings and driving the increase of our customers' spending through our DLM solutions. We believe this strategy will help strengthen our relationships with our customers and increase customer stickiness. During the Track Record Period, the revenue contribution from returning customers under long-term device subscription services amounted to approximately 20.8%, 15.4%, 20.1% and 19.6% of our total revenue and 52.7%, 61.3%, 65.9% and 75.3% of the revenue from device subscription services and IT technical subscription services in 2019, 2020 and 2021 and for the six months ended June 30, 2022, respectively. In addition, our cross-selling strategy enables us to generate more revenue from each single customer. For example, in 2019, 2020 and 2021, the average revenue per KA customer of long-term device subscription services amounted to RMB82,436, RMB117,101 and RMB153,312, respectively, representing a CAGR of 36.4%. Furthermore, the average revenue per KA customer of long-term device subscription services amounted to RMB76,424 and RMB73,384 for the six months ended June 30, 2021 and 2022, respectively. As we continue to deliver measurable business results to our customers, we are capable of driving customer loyalty and spending, thereby achieving our sustainable growth in the long term.

Our ability to manage our costs and reach operational efficiencies

The profitability of our DLM solutions depends largely on our ability to enhance the operational efficiency. As salaries and welfare of our staff form a significant portion of our cost of sales, administrative expenses and distribution and selling expenses, our ability to manage costs at a reasonable level while expanding our business is important for our results of operations.

As we continue to expand the scale and scope of our business, we expect to benefit from economies of scale, which can be demonstrated by the decreasing percentage of revenue accounted for by our operating expenses. Our distribution and selling expenses accounted for 14.6%, 7.7%, 8.7% and 7.6% of our revenue in 2019, 2020 and 2021 and for the six months ended June 30, 2022. Our administrative expenses accounted for 8.1%, 3.2%, 3.0% and 4.1% of our revenue in 2019, 2020 and 2021 and for the six months ended June 30, 2022. In addition, we seek to continue deepening our relationship with our KA customers and strategic Shareholders, and achieve better utilization of our customer acquisition costs.

Continuous investment in product and technology development

We have made, and will continue to make, significant investments in services and technology development to strengthen our market leadership. We will continue to invest resources to attract more talented research and development personnel and further develop and apply advanced technologies to build a core and integrated technology system to support more business lines and connect with more business partners. We also continue to develop a complete front-desk, middle-office and back-end system to facilitate our daily operations, which is expected to result in increasing research and development expenses. In 2019, 2020, 2021 and for the six months ended June 30, 2021 and 2022, we incurred research and development expenses of RMB12.0 million, RMB13.7 million, RMB18.3 million, RMB8.0 million and RMB13.0 million, respectively. Going forward, we will continue to prudently invest resources in research and development in a cost-effective manner to support the long-term growth of our business.

Revenue mix

We generated revenue from device recycling business, device subscription services and IT technical subscription services during the Track Record Period. As we have built an integrated, multi-scenario and closed-loop DLM business model, we have enhanced our business mix which increased our recurring revenue. Meanwhile, a shift in our revenue mix would affect our gross profit margin, as the gross profit margin of each service category varies. Our overall gross profit margin level depends on the types and mix of service categories we provide. During the Track Record Period, we managed to keep our gross profit margin relatively stable at 16.0% in 2019, 14.4% in 2020, 14.5% in 2021, 18.1% for the six months ended June 30, 2021 and 11.7% for the six months ended June 30, 2022. We will continue to optimize our revenue mix and carefully manage our growth.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continuously evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events which are deemed to be reasonable under the circumstances. There has not been any material deviation from our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes to these estimates and assumptions in the foreseeable future.

Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in further details in Notes 4 and 5 to the Accountant's Report included in Appendix I to this document.

Revenue from contracts with customers

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance 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.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents 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.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognize revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Useful lives of property, plant and equipment

In determining the useful lives of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on historical experience of the Group with similar assets that are used in a similar way. The depreciation amount will be adjusted if the estimated useful lives of property, plant and equipment are different from previous estimation. Useful lives are reviewed, at the end of each reporting period, based on changes in circumstances. Equipment for subscription is depreciated over the estimated useful life on a straight-line basis. For brand-new equipment for subscription, the estimated useful life is generally five years, for used equipment for subscription the estimated useful life is three years. During the Track Record Period, equipment for subscription was depreciated at rates ranging from 20% to 33.3% per annum.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application of IFRS 16 or arising from business combination, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the historical financial information would not differ materially from individual leases within the portfolio.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of staff quarters and office equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognized as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets in "property, plant and equipment and right-of-use assets", the same line item within which the corresponding underlying assets would be presented if they were owned.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) when the lease term has changed, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities in "borrowings and lease liabilities" on the consolidated statements of financial position.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Fair value of the financial liabilities at FVTPL

LX Technology has completed the Series of Investments before and during the Track Record Period, and the Company has issued the preferred shares and warrants to the investors during the six months ended June 30, 2022 as set out in Note 25 in Appendix I to this document. The Group recorded these financial instruments as financial liabilities at FVTPL for which no quoted prices in an active market exist. The fair value of the financial instruments as at December 31, 2019, 2020 and 2021 and June 30, 2022 is established by using valuation techniques, which include back-solve, discounted cash flow and equity allocation based on the Black-Scholes option pricing model involving various parameters and inputs. Valuation techniques adopted by an independent qualified professional valuer are calibrated to ensure that outputs reflect market conditions. However, it should be noted that some inputs, such as possibilities under different scenarios, such as qualified [**REDACTED**], redemption, liquidation, and other inputs, such as time to liquidation, discount rate, risk-free interest rate, and expected volatility value, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions change, it may lead to a change in the fair value of the financial liabilities at FVTPL.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth a summary of our consolidated statements of profit or loss and other comprehensive income, with line items in absolute amounts and as a percentage of our revenue during the Track Record Period.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*% of Revenue*	*RMB'000*	*% of Revenue*	*RMB'000*	*% of Revenue*	*RMB'000 (unaudited)*	*% of Revenue*	*RMB'000*	*% of Revenue*
Revenue	500,339	100.0	1,022,169	100.0	1,330,402	100.0	536,926	100.0	854,013	100.0
Cost of sales	(420,237)	(84.0)	(875,307)	(85.6)	(1,137,266)	(85.5)	(439,686)	(81.9)	(754,392)	(88.3)
Gross profit	80,102	16.0	146,862	14.4	193,136	14.5	97,240	18.1	99,621	11.7
Other income	4,063	0.8	13,571	1.3	14,861	1.1	5,363	1.0	8,533	1.0
Fair value change of financial liabilities at fair value through profit or loss ("FVTPL")	(10,077)	(2.0)	(189,692)	(18.6)	(433,916)	(32.6)	(278,230)	(51.8)	36,417	4.3
Impairment losses under expected credit loss model, net of reversal	(2,099)	(0.4)	(2,071)	(0.2)	(1,970)	(0.1)	(1,122)	(0.2)	(2,921)	(0.3)
Distribution and selling expenses	(72,987)	(14.6)	(78,237)	(7.7)	(115,906)	(8.7)	(50,462)	(9.4)	(64,877)	(7.6)
Administrative expenses	(40,454)	(8.1)	(32,636)	(3.2)	(40,497)	(3.0)	(18,059)	(3.4)	(35,376)	(4.1)
Research and development expenses	(12,030)	(2.4)	(13,654)	(1.3)	(18,280)	(1.4)	(8,000)	(1.5)	(13,019)	(1.5)
Finance costs	(11,998)	(2.4)	(19,106)	(1.9)	(36,301)	(2.7)	(14,580)	(2.7)	(21,995)	(2.6)
Other expenses	(1,722)	(0.3)	–	–	–	–	–	–	–	–
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Loss before tax	(67,202)	(13.4)	(174,963)	(17.1)	(446,271)	(33.5)	(267,850)	(49.9)	(7,105)	(0.8)
Income tax credit (expense)	6,856	1.4	(2,164)	(0.2)	(2,431)	(0.2)	(287)	(0.1)	1,275	0.1
Loss and total comprehensive expense for the year/period	(60,346)	(12.1)	(177,127)	(17.3)	(448,702)	(33.7)	(268,137)	(49.9)	(5,830)	(0.7)
(Loss) profit and total comprehensive (expense) income attributable to:										
Owners of the Company	(60,187)	(12.0)	(177,302)	(17.3)	(448,702)	(33.7)	(268,137)	(49.9)	(5,830)	(0.7)
Non-controlling interests	(159)	–[(1)]	175	–[(1)]	–	–	–	–	–	–
	(60,346)	(12.1)	(177,127)	(17.3)	(448,702)	(33.7)	(268,137)	(49.9)	(5,830)	(0.7)

Note:

(1) Less than 0.05%.

NON-IFRS MEASURE

To supplement our consolidated financial statements which are presented in accordance with IFRSs, we also use adjusted EBITDA (a non-IFRS measure) as an additional financial measure, which are not required by, or presented in accordance with, IFRSs. We believe that such measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management to evaluate our operating performance and formulate business plans. However, our adjusted EBITDA (a non-IFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation, or as substitute for analysis of, our results of operations or financial position as reported under IFRSs.

There are two components of the adjusted EBITDA (a non-IFRS measure) metric: (i) EBITDA (a non-IFRS measure), which we define as loss for the year/period adding back income tax expense, finance costs, bank interest income, depreciation of property, plant and equipment and right-of-use assets; and (ii) adjustments to EBITDA (a non-IFRS measure), which includes [**REDACTED**] related to this [**REDACTED**], fair value change of financial liabilities at FVTPL and share-based payments expense. Fair value change of financial liabilities at FVTPL represents fair value changes in relation to series of investments in LX Technology before and during the Track Record Period. The series of investments as of June 30, 2022 have been converted to the Company's Preferred Shares as part of the reorganization and will be converted into equity upon the [**REDACTED**]. We do not expect to recognize any further loss or gain on fair value changes from Pre-[**REDACTED**] Investments in the future. We exclude share-based payments expense because they are non-cash in nature, and do not result in cash outflow. The exclusion of share-based payments expense complies with the Guidance Letter HKEX-GL103-19. Share-based payments expense of RMB23.6 million for the six months ended June 30, 2022 comprised RMB7.4 million, RMB13.6 million and RMB2.5 million recognized under distribution and selling expenses, administrative expenses and research and development expenses, respectively.

The following tables reconcile our adjusted EBITDA (a non-IFRS measure) for the years/periods presented to net loss during the Track Record Period.

	Year ended December 31,			**Six months ended June 30,**	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Reconciliation of loss for the year/period and adjusted EBITDA (a non-IFRS measure)					
Loss for the year/period	(60,346)	(177,127)	(448,702)	(268,137)	(5,830)
Add:					
Income tax expense	(6,856)	2,164	2,431	287	(1,275)
Finance costs	11,998	19,106	36,301	14,580	21,995
Bank interest income	(262)	(560)	(669)	(395)	(182)
Depreciation of property, plant and equipment and right-of-use assets	82,239	131,209	193,343	85,910	112,173
Non-IFRS measure:					
EBITDA	26,773	(25,208)	(217,296)	(167,755)	126,881
Add:					
[**REDACTED**]	–	–	[**REDACTED**]	–	[**REDACTED**]
Fair value change of financial liabilities at FVTPL	10,077	189,692	433,916	278,230	(36,417)
Share-based payments expense	–	–	–	–	23,555
Non-IFRS measure:					
Adjusted EBITDA	36,850	164,484	224,018	110,475	127,507

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue by service lines

During the Track Record Period, we derived our revenue primarily from (i) device recycling income, (ii) device subscription services, and (iii) IT technical subscription services for services provided to our customers. In 2019, 2020, and 2021 and for the six months ended June 30, 2021 and 2022, our revenue was RMB500.3 million, RMB1,022.2 million, RMB1,330.4 million, RMB536.9 million and RMB854.0 million, respectively. The following table sets forth a breakdown of our revenue by service lines in absolute amounts and as a percentage of our revenue during the Track Record Period.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Device recycling income	302,844	60.5	765,197	74.8	924,408	69.4	357,806	66.7	632,117	74.0
Device subscription services	82,085	16.4	143,847	14.1	265,602	20.0	115,008	21.4	150,367	17.6
– Long term device subscription	68,435	13.7	117,336	11.5	217,559	16.4	97,752	18.2	123,241	14.4
– Short term device subscription	13,650	2.7	26,511	2.6	48,043	3.6	17,256	3.2	27,126	3.2
IT technical subscription services	115,410	23.1	113,125	11.1	140,392	10.6	64,112	11.9	71,529	8.4
Total	500,339	100.0	1,022,169	100.0	1,330,402	100.0	536,926	100.0	854,013	100.0

Device recycling income

We purchase de-commissioned IT devices from corporate users for use in our device subscription services after refurbishment. We conduct rigorous procedures to select devices based on the appearance and the functionality, which are likely to satisfy the demand of customers of our device subscription services after our refurbishment. Our refurbishment effort primarily involves the testing of functionality and repairing of defects to ensure the devices can function properly without defects before delivering such to our customers under our device subscription services. Some of the de-commissioned devices will also be sold through e-commerce platforms or our own platform. Device recycling income accounted for 60.5%, 74.8%, 69.4%, 66.7% and 74.0%, respectively, of our revenue in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022.

The following table sets forth a breakdown of our revenue of the device recycling business by major types of IT devices during the Track Record Period.

	Year Ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Laptop computers	63,019	20.8	101,056	13.2	230,677	25.0	60,471	16.9	78,003	12.3
Tablet computers and mobile phones	69,567	23.0	361,720	47.3	468,304	50.6	172,050	48.1	444,082	70.3
Servers and accessories	160,248	52.9	284,565	37.2	176,838	19.1	110,451	30.9	83,146	13.2
Other IT devices	10,010	3.3	17,856	2.3	48,589	5.3	14,834	4.1	26,886	4.3
Total	302,844	100.0	765,197	100.0	924,408	100.0	357,806	100.0	632,117	100.0

Note: Accessories mainly include major components of servers and computers, such as random access memory (RAM), hard disk, CPU, etc.

During the Track Record Period, our major product types of de-commissioned devices were (i) laptop computers, (ii) tablet computers and mobile phones, (iii) servers and accessories, and (iv) other IT devices. In particular, the revenue from laptop computers, tablet computers and mobile phones accounted for 43.8% in 2019, 60.5% in 2020, 75.6% in 2021, and 65.0% and 82.6% for the six months ended June 30, 2021 and 2022, respectively, of our total revenue of device recycling business. Our product mix for the device recycling business is primarily subject to the market demand, disposal categories of upstream suppliers, and bundle procurement/sales with multiple types of IT devices in a single order, which in turn affect the sales value and gross profit margins of our products. For further details regarding the gross profit margin of our device recycling business during the Track Record Period, please see "– Gross profit and gross profit margin of the device recycling business by product types" below.

Revenue from device subscription services

Our device subscription services primarily include selecting IT devices suitable for users, assembling devices, pre-installing device configurations and customizing system settings. Revenue generated from our device subscription services accounted for 16.4%, 14.1%, 20.0%, 21.4% and 17.6%, respectively, of our revenue in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022. During the Track Record Period, the revenue generated from our device subscription services primarily included (i) income from our long-term device subscription services, the service period of which is a minimum of six months; and (ii) income from our short-term device subscription services for business scenarios such as offline large-scale examinations, exhibitions, technology conferences, shopping festivals and other business activities. We receive part of the income at the commencement of the service period and the remaining balance will be received over the service period on a monthly basis for long-term device subscription service, or at the end of service period for the short-term device subscription service.

Revenue from IT technical subscription services

Our IT technical subscription services primarily include solving problems in IT devices and keeping devices on the cutting edge of technology through system upgrades. Such services are provided coupled with device subscription services, standalone or on a project basis. Revenue generated from our IT technical subscription services accounted for 23.1%, 11.1%, 10.6%, 11.9% and 8.4%, respectively, of our revenue in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022.

Revenue by geographical locations

The following table sets forth a breakdown of our revenue by geographical location in absolute amounts and as a percentage of our revenue during the Track Record Period. The following geographical analysis of revenue has been based on the geographical location of our subsidiaries that signed the orders.

	Year ended December 31,						**Six months ended June 30,**			
	2019		**2020**		**2021**		**2021**		**2022**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* *(unaudited)*	%	*RMB'000*	%
Shenzhen	301,686	60.3	779,327	76.2	983,551	73.9	364,821	67.9	691,067	80.9
Shanghai	48,148	9.6	63,937	6.3	85,668	6.4	40,369	7.5	43,441	5.1
Wuhan	14,826	3.0	20,806	2.0	80,051	6.0	30,088	5.6	46,979	5.5
Beijing	49,480	9.9	49,399	4.8	78,876	5.9	36,790	6.9	37,993	4.4
Guangzhou	26,013	5.2	29,920	2.9	37,852	2.8	17,334	3.2	19,878	2.3
Others(1)	60,185	12.0	78,780	7.7	64,403	4.8	47,524	8.9	14,655	1.8
Total	500,339	100.0	1,022,169	100.0	1,330,402	100.0	536,926	100.0	854,013	100.0

Note:

(1) Others mainly include Chengdu, Xiamen, Nanjing, Zaozhuang and Jingmen.

During the Track Record Period, revenue generated from Shenzhen, our headquarter, accounted for 60.3%, 76.2%, 73.9%, 67.9% and 80.9%, respectively, of our revenue in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022. We also expanded our business into other cities in China, mainly including Shanghai, Wuhan, Beijing and Guangzhou.

Subscription/sales volume and subscription/selling price

The following table sets forth the breakdown of the subscription/selling price and subscription/sales volume of our services by service lines for the periods indicated:

	Year Ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Total sales volume *(device)*	Average sales value *RMB/device*	Total sales volume *(device)*	Average sales value *RMB/device*	Total sales volume *(device)*	Average sales value *RMB/device*	Total sales volume *(device)*	Average sales value *RMB/device*	Total sales volume *(device)*	Average sales value *RMB/device*
Device recycling business	151,155	1,211.6	598,685	914.5	857,118	876.9	202,701	1,232.1	472,682	1,261.2

In 2020, the drop in average sales value per device was primarily due to shift in our product mix towards products with lower value such as monitors and network switches. Average sales value per device increased in the first half-year of 2021 compared to the level achieved in 2020 due to the shortage caused by supply chain disruption. In 2021, average sales value per device were lower than that in 2020 primarily because we sold our de-commissioned devices to certain leading companies which were new to us at lower average prices, aiming at developing long-term business relationship with them. In addition, the market prices of IT devices dropped since the second half of 2021 following the easing of shortage caused by supply chain disruption.

	Year Ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Average monthly subscription volume *(device)*	Average monthly subscription price *RMB/device*	Average monthly subscription volume *(device)*	Average monthly subscription price *RMB/device*	Average monthly subscription volume *(device)*	Average monthly subscription price *RMB/device*	Average monthly subscription volume *(device)*	Average monthly subscription price *RMB/device*	Average monthly subscription volume *(device)*	Average monthly subscription price *RMB/device*
Device subscription services	157,038	43.6	230,583	52.0	352,942	62.7	318,445	60.2	373,911	67.0
IT technical subscription services	102,329	94.0	151,204	62.4	228,662	51.2	200,671	53.2	257,409	46.3

During the Track Record Period, we primarily provided laptop computers, desktop computers, mobile phones, tablet computers, all-in-one computers, printers, photocopiers, servers and conference-related and other devices for subscription.

The following table sets forth an analysis on the remaining lease terms of our device subscription services and IT technical subscription services agreements as of June 30, 2022, respectively.

	As of June 30, 2022			
	Device subscription services	**IT technical subscription services**	**Total**	
	RMB'000	*RMB'000*	*RMB'000*	*%*
Agreements expiration:				
Within one year	247,523	113,251	360,774	70.1
More than one year but not more than two years	77,414	36,396	113,810	22.1
More than two years	27,235	12,729	39,964	7.8
	352,172	162,376	514,548	100.0

Cost of Sales

Our cost of sales consists primarily of (i) costs of inventories sold; (ii) depreciation and amortization, which primarily include depreciation of equipment for subscription; (iii) staff costs, representing salaries and welfare for our business operation personnel; and (iv) others, mainly representing costs related to short-term device subscription services such as rentals for venue and wages for temporary staff.

The following table sets forth a breakdown of cost of sales by nature in absolute amounts and as a percentage of our revenue during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2019		**2020**		**2021**		**2021**		**2022**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Costs of inventories sold	299,642	71.3	710,195	81.1	890,915	78.3	331,421	75.4	616,555	81.7
Depreciation and amortization	75,517	17.9	122,834	14.0	182,277	16.0	80,159	18.2	105,792	14.0
Staff costs	20,053	4.8	18,903	2.2	29,363	2.6	12,465	2.8	15,664	2.1
Others	25,025	6.0	23,375	2.7	34,711	3.1	15,641	3.6	16,381	2.2
Total	420,237	100.0	875,307	100.0	1,137,266	100.0	439,686	100.0	754,392	100.0

The following table sets forth a breakdown of cost of sales by service line during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(unaudited)			
Device recycling income	302,571	72.0	715,639	81.8	895,301	78.7	333,873	75.9	619,185	82.1
Device subscription services	96,405	22.9	137,378	15.7	203,948	17.9	89,163	20.3	113,166	15.0
IT technical subscription services	21,261	5.1	22,290	2.5	38,017	3.4	16,650	3.8	22,041	2.9
Total	420,237	100.0	875,307	100.0	1,137,266	100.0	439,686	100.0	754,392	100.0

Gross Profit and Gross Profit Margin

The following table sets forth a breakdown of our gross profit and gross profit margin by service line during the Track Record Period.

	Year Ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(unaudited)			
Device recycling income	273	0.1	49,558	6.5	29,107	3.1	23,933	6.7	12,932	2.0
Device subscription services	(14,320)	(17.4)[1]	6,469	4.5	61,654	23.2	25,845	22.5	37,201	24.7
IT technical subscription services	94,149	81.6	90,835	80.3	102,375	72.9	47,462	74.0	49,488	69.2
Total	80,102	16.0	146,862	14.4	193,136	14.5	97,240	18.1	99,621	11.7

Note:

(1) The gross loss margin of 17.4% of device subscription services in 2019 was due to lower prices charged (approximately 16.2% lower than the average monthly device subscription price in 2020) to attract more customers to subscribe for IT technical subscription services coupled with device subscription services. In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, the number of customers of IT technical subscription services were 9,634, 9,168, 11,178, 7,708 and 10,367, respectively, of which 5,307, 4,413, 5,612, 2,526 and 3,593 were new customers, respectively.

Our gross profit represents our revenue less our cost of sales. In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, our gross profit was RMB80.1 million, RMB146.9 million, RMB193.1 million, RMB97.2 million and RMB99.6 million, respectively. Our gross profit margin represents our gross profit as a percentage of our revenue. In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, our gross profit margin was 16.0%, 14.4%, 14.5%, 18.1% and 11.7%, respectively.

Gross profit and gross profit margin of the device recycling business by product types

The following table sets forth a breakdown of our gross profits and gross profit margins of the device recycling business by major types of IT devices during the Track Record Period.

	Year Ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Laptop computers	9,572	15.2	16,111	15.9	10,451	4.5	5,980	9.9	5,840	7.5
Tablet computers and mobile phones	(1,052)	(1.5)	6,291	1.7	11,314	2.4	6,095	3.5	5,876	1.3
Servers and accessories	(8,063)	(5.0)	25,465	8.9	7,010	4.0	10,364	9.4	1,932	2.3
Other IT devices	(184)	(1.8)	1,691	9.5	332	0.7	1,494	10.1	(716)	(2.7)
Total	273	0.1	49,558	6.5	29,107	3.1	23,933	6.7	12,932	2.0

Our gross profits and gross profit margins of the device recycling business largely depend on our product mix. During the Track Record Period, gross profit margins of major types of IT devices of our device recycling business varied significantly, primarily due to combination of various factors such as changes in device model and configuration as well as market demand and supply. In addition, we may be required to purchase from suppliers, and sell to customers, different types of de-commissioned devices in bundle at a wholesale price without setting a fixed gross profit margin for each type of devices in response to requests by our suppliers and customers, which may also affect the gross profit margin of our device recycling business. We do not purchase and sell de-commissioned devices on a back-to-back basis. We consider gross profit margin has inherent limitations in analyzing the performance of our device recycling business, as the procurement price and selling price for de-commissioned IT devices vary significantly due to the aforesaid factors (i.e. changes across different device model and configuration as well as market demand and supply), which are largely determined by the timing at which we agree to purchase the de-commissioned IT devices from our suppliers and sell them to our customers. Our management examines the market prices of de-commissioned IT devices from time to time to ensure the selling prices offered to our customers and the procurement prices paid by us allow sufficient spread to our Group to derive an overall reasonable profit margin to cater for any sudden fluctuation in market prices of de-commissioned IT devices. For risks relating to the fluctuation in gross profit margin of our products, please refer to "Risk Factors – Risks Relating to Our Business and Industry – We incurred gross loss for our device subscription services in 2019, and the gross profit margins of our three service lines had fluctuated during the Track Record Period and may continue to fluctuate in the future."

Laptop computers: Gross profit margin of laptop computers was generally higher than that of other categories of de-commissioned devices during the Track Record Period, as we have established leading market position as well as diversified distribution channels (e.g. third party e-commerce platforms in addition to proprietary quotation platform) for de-commissioned laptop computers, which made it easier for us to sell the de-commissioned laptop computers at favorable prices. In 2020, gross profit margin of laptop computers rose slightly as we were included in the list of pre-approved bidders of major suppliers due to competitive pricing strategy adopted in 2019 and therefore, we were able to submit bids selectively after assessing profit margin of different bidding opportunities or purchase through negotiating with the major suppliers. In 2021, the average procurement cost of de-commissioned laptop computers increased by 50.9% from RMB1,009.8 in 2020 to RMB1,523.6 in 2021 due to supply chain disruption during the COVID-19 pandemic. However, our average selling price of de-commissioned laptop computers only increased to a smaller extent by 32.8% from RMB1,201.3 in 2020 to RMB1,595.9 in 2021 as we attempted to develop long-term business relationship with certain leading companies which were new to us with competitive pricing, resulting in the drop in gross profit margin to 9.9% in the first half-year of 2021 and then to 4.5% for the year ended December 31, 2021. In the first half-year of 2022, our average procurement cost of de-commissioned laptop computers dropped by 22.7% from RMB1,523.6 in 2021 to RMB1,177.2 in the first half-year of 2022 following the easing of shortage caused by supply chain disruption while our average selling price dropped by 20.3% from RMB1,595.9 in 2021 to RMB1,272.5 in the first half-year in 2022, resulting in improvement in gross profit margin from 4.5% in 2021 to 7.5% in the first half-year in 2022.

Tablet computers and mobile phones: Gross profit margin of tablet computers and mobile phones was generally lower than that of other categories of de-commissioned devices during the Track Record Period, as it is our strategy to resell de-commissioned tablet computers and mobile phones as soon as possible to minimize the risk of inventory obsolescence since product life cycle of such consumer electronic devices is usually short as different new models, design and functions would be launched from time to time. As advised by CIC, it is an industry practice for leading device recycling companies to have high inventory turnover for de-commissioned tablet computers and mobile phones due to the shorter replacement cycle of consumer electronics. In 2020, gross profit margin of tablet computers and mobile phones rose slightly as we were included in the list of pre-approved bidders of major suppliers due to competitive pricing strategy adopted in 2019 and therefore, we were able to submit bids selectively after assessing profit margin of different bidding opportunities or purchase through negotiating with the major suppliers. In 2021, demand for mobile phones surged with the increasing popularity of 5G mobile phones, resulting in improvement of gross profit margin from 1.7% in 2020 to 2.4% in 2021. In the first half-year of 2022, our average procurement cost of de-commissioned tablet computers and mobile phones slightly increased by 2.5% from RMB2,724 in 2021 to RMB2,791.3 in the first half-year of 2022 with increase in purchase of more latest models of tablet computers and mobile phones while our average selling price increased to a smaller extent by 1.3% from RMB2,791.4 in 2021 to RMB2,828.7 in the first half-year in 2022. Our profit margin of tablet computers and mobile phones dropped from 2.4% in 2021 to 1.3% in the first half-year in 2022.

Servers and accessories: In 2020, gross profit margin of servers and accessories improved as we were included in the list of pre-approved bidders of major suppliers due to competitive pricing strategy adopted in 2019 and therefore, we were able to submit bids selectively after assessing profit margin of different bidding opportunities or purchase through negotiating with the major suppliers. In 2021, the aggregate of average procurement cost of servers and accessories decreased by 31.5% from RMB2,061.4 in 2020 to RMB1,412.7 in 2021 due to increase in supply following disposal by leading technology companies. However, the aggregate of average selling price of de-commissioned servers and accessories dropped to a larger extent by 37.7% from RMB2,156.2 in 2020 to RMB1,343.8 in 2021 due to our attempt to develop long-term business relationship with certain leading companies by offering servers with less sophisticated features and therefore lower selling prices, resulting in the drop in gross profit margin to 4.0% in 2021. In the first half-year of 2022, the aggregate of average procurement cost of de-commissioned servers and accessories rose by 87.7% from RMB1,412.7 in 2021 to RMB2,650.9 in the first half-year of 2022 while the aggregate of average selling price rose to a larger extent by 99.3% from RMB1,343.8 in 2021 to RMB2,678.2 in the first half-year in 2022. Nonetheless, we recorded a drop in gross profit margin from 4.0% in 2021 to 2.3% in the first half-year in 2022 mainly due to the decrease in demand for de-commissioned servers and accessories following the increase in supply of brand-new IT devices in the first half year in 2022.

Other Income

Other income consists primarily of (i) government subsidies; (ii) compensation income from customers primarily for (a) early termination of contract as these customers were no longer in need of our services due to their workforce reduction or changes in business condition and (b) damage to devices; and (iii) bank interest income.

Our government subsidies include industry-specific subsidies granted by the local government authorities in China to encourage research and development projects and high-tech companies. The establishment of the incentive programs and grant of such subsidies are subject to the government's discretion and the receipt of such subsidies is thus unpredictable. Our eligibility for government grants is dependent on a variety of factors, including the qualification of a high-tech enterprise, annual research and development expenses, income growth rate, etc. There are no unfulfilled conditions relating to such government subsidies recognized. Our government subsidies were non-recurring in nature and caused the fluctuations in the amount of other income.

The following table sets forth a breakdown of our other income during the Track Record Period.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(unaudited)			
Government subsidies	3,784	93.1	10,794	79.5	10,672	71.8	3,870	72.2	5,292	62.0
Compensation income from customers	17	0.4	1,773	13.1	3,520	23.7	1,098	20.5	3,059	38.1
Bank interest income	262	6.5	560	4.1	669	4.5	395	7.4	182	2.3
Others	–	–	444	3.3	–	–	–	–	–	–
Total	4,063	100.0	13,571	100.0	14,861	100.0	5,363	100.0	8,533	100.0

Fair value change of financial liabilities at FVTPL

Our fair value change of financial liabilities at FVTPL represents fair value changes in relation to series of investments in LX Technology before and during the Track Record Period. Our fair value change of financial liabilities at FVTPL amounted to loss of RMB10.1 million, RMB189.7 million, RMB433.9 million and RMB278.2 million in 2019, 2020 and 2021 and for the six months ended June 30, 2021, respectively, and amounted to gain of RMB36.4 million for the six months ended June 30, 2022. Please refer to Note 25 to the Accountants' Report in Appendix I to this document.

Impairment losses under ECL model, net of reversal

Our impairment losses under ECL model, net of reversal, primarily consist of impairment losses of trade and other receivables. Impairment losses were estimated by the management on a forward-looking basis and taking into account the credit risk characteristics of different customers in accordance with IFRS 9. When accessing the credit risks of a particular customer, we consider available supporting information regarding the business and financial background of such customer and its ultimate beneficial shareholders and our historical business relationship with such customer.

Our provision for impairment losses accounted 5.2%, 9.0%, 9.6% and 12.8% of our trade and lease receivables (gross) as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively, which is consistent with our prudent approach in assessing impairment losses under ECL model.

Distribution and Selling Expenses

Our distribution and selling expenses primarily consist of (i) salaries and welfare of our sales and marketing team; (ii) customer acquisition expenses paid to our strategic Shareholders and business partners, which include (a) one-off fixed amounts and (b) amounts equivalent to a percentage of the revenue attributable to customers they referred to us, typically ranging from 1.2% to 5%, as well as expenses incurred in operating our online store; (iii) marketing and promotion expenses relating to our online and offline advertising and promotion activities; (iv) travelling and transportation; (v) rental and utilities expenses; (vi) share-based payments expense; and (vii) others, which mainly include general office expenses and telecommunication charges. Our distribution and selling expenses were RMB73.0 million, RMB78.2 million, RMB115.9 million, RMB50.5 million and RMB64.9 million, respectively, in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, accounting for 14.6%, 7.7%, 8.7%, 9.4% and 7.6%, respectively, of our revenue in the same periods.

The following table sets forth the components of our distribution and selling expenses during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(unaudited)			
Salaries and welfare	40,747	55.8	32,130	41.0	54,702	47.2	22,046	43.7	33,164	51.1
Customer acquisition expenses	17,150	23.5	35,133	44.9	46,416	40.0	23,370	46.3	17,647	27.2
Marketing and promotion expenses	6,733	9.2	4,992	6.4	8,636	7.5	2,156	4.3	3,783	5.8
Travelling and transportation	4,549	6.2	3,680	4.7	3,083	2.7	1,479	2.9	1,137	1.8
Rental and utilities expenses	2,009	2.8	1,087	1.4	1,666	1.4	835	1.7	809	1.2
Share-based payments expense	–	–	–	–	–	–	–	–	7,422	11.4
Others	1,799	2.5	1,215	1.6	1,403	1.2	576	1.1	915	1.4
Total	72,987	100.0	78,237	100.0	115,906	100.0	50,462	100.0	64,877	100.0

Administrative Expenses

Our administrative expenses primarily consist of (i) salaries and welfare relating to our administrative staff; (ii) professional fee; (iii) operation related expenses; (iv) rental and utilities expenses; (v) bank charges; (vi) share-based payments expense; and (vii) others, mainly including logistical expenses, general office expenses and maintenance fee.

The following table sets forth a breakdown of the components of our administrative expenses during the Track Record Period.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Salaries and welfare	22,811	56.4	19,415	59.5	26,459	65.3	11,703	64.8	13,423	37.9
Professional fee	3,629	9.0	3,769	11.5	3,605	8.9	1,183	6.6	2,172	6.1
Operation related expenses	3,983	9.8	2,779	8.5	3,868	9.6	1,915	10.6	1,890	5.3
Rental and utilities expenses	4,917	12.2	3,185	9.8	3,597	8.9	2,059	11.4	1,515	4.3
Bank charges	1,305	3.2	1,241	3.8	1,103	2.7	408	2.3	1,768	5.0
Share-based payments expense	–	–	–	–	–	–	–	–	13,584	38.4
Others	3,809	9.4	2,247	6.9	1,865	4.6	791	4.4	1,024	2.9
Total	40,454	100.0	32,636	100.0	40,497	100.0	18,059	100.0	35,376	100.0

Research and Development Expenses

Our research and development expenses primarily consist of (i) salaries and welfare of our research and development staff responsible for the development of our DLM solutions; (ii) depreciation and amortization for equipment and software system, respectively, for research and development purpose (iii) share-based payments expense; and (iv) others, which primarily include service fee and other operating expenses necessary to support our research and development activities.

The following table sets forth a breakdown of the major components of our research and development expenses during the Track Record Period.

	Year ended December 31						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Salaries and welfare	10,808	89.8	11,048	80.9	15,033	82.2	6,433	80.4	8,784	67.5
Depreciation and amortization	126	1.0	1,151	8.4	1,215	6.6	610	7.6	530	4.1
Share-based payments expense	–	–	–	–	–	–	–	–	2,549	19.6
Others	1,096	9.2	1,455	10.7	2,032	11.2	957	12.0	1,156	8.8
Total	12,030	100.0	13,654	100.0	18,280	100.0	8,000	100.0	13,019	100.0

Finance Costs

Our finance costs are primarily comprised of (i) interest expenses on borrowings, which primarily include bank borrowings and finance leases; and (ii) interest expenses on lease liabilities. Our finance costs amounted to RMB12.0 million, RMB19.1 million, RMB36.3 million, RMB14.6 million and RMB22.0 million in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively. The following table sets forth a breakdown of the major components of our finance costs during the Track Record Period.

	Year ended December 31						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Interest expenses on borrowings	10,195	85.0	17,393	91.0	34,763	95.8	13,766	94.4	21,370	97.2
Interest expenses on lease liabilities	1,803	15.0	1,713	9.0	1,538	4.2	814	5.6	625	2.8
	11,998	100.0	19,106	100.0	36,301	100.0	14,580	100.0	21,995	100.0

Income Tax (Credit)/Expense

The following table sets forth a breakdown income tax (credit)/expense during the Track Record Period.

	Year ended December 31,			Six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Current tax:					
PRC Enterprise Income Tax ("EIT")					
– Current year	170	293	174	106	7
Deferred tax	(7,026)	1,871	2,257	181	(1,282)
Total	(6,856)	2,164	2,431	287	(1,275)

Our income tax credit was RMB6.9 million in 2019. Our income tax expense was RMB2.2 million and RMB2.4 million in 2020 and 2021, respectively. Our income tax expense was RMB0.1 million for the six months ended June 30, 2021 and our income tax credit was RMB1.3 million for the six months ended June 30, 2022. As of the Latest Practicable Date, we did not have any material dispute with any tax authority.

We are subject to various rates of income tax under different jurisdictions. The following summarizes major factors affecting our applicable tax rates in the Cayman Islands, the British Virgin Islands, Hong Kong and the PRC.

Cayman Islands

Under the current laws of the Cayman Islands, entities incorporated in the Cayman Islands as exempted companies are not subject to tax on income or capital gain. In addition, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders. Our Company was incorporated in the Cayman Islands as an exempted company with limited liability and is not subject to income tax in the Cayman Islands.

British Virgin Islands

Under the current laws of the British Virgin Islands, entities incorporated in the British Virgin Islands as exempted companies are not subject to tax on income or capital gain. In addition, the British Virgin Islands does not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

No provision for Hong Kong profits tax has been made since the entity operating in Hong Kong had no assessable profits for the Track Record Period.

PRC

The income tax provision of the subsidiaries operating in the PRC has been calculated at the tax rate of 25% on the taxable income during the Track Record Period in accordance with the relevant regulations of the PRC.

LX Technology, a major operating entity of the Group in the PRC, was qualified as "High and New Technology Enterprises" in October 2017 which was subsequently renewed in December 2020 with a valid period of three years, and therefore LX Technology is entitled to a preferential income tax rate of 15% for the Track Record Period. The latest approval for LX Technology enjoying this tax benefit was obtained in December 2021 for the financial years of 2022, 2023 and 2024.

Certain subsidiaries were qualified as "Small Low-profit Enterprise". From January 1, 2019 to December 31, 2021, the first RMB1 million taxable income and the portion of more than RMB1 million but less than RMB3 million taxable income of these qualifying subsidiaries would be reduced to 25% and 50% of the actual taxable income, respectively and such reduced taxable income and the taxable income which more than RMB3 million of these qualifying subsidiaries would be subject the preferential income tax rate of 20%. From January 1, 2022 to December 31, 2024, the qualifying deduction of actual taxable income for first 2 tier taxable income of these qualifying subsidiaries would be reduced to 12.5% and 25% of the actual taxable income, respectively and continue subject to the preferential income tax rate of 20%.

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2018 onwards, enterprises engage in research and development activities are entitled to claim 175% of the research and development expenses incurred in a year as tax deductible expenses in determining the taxable income for that year ("Super Deduction"). LX Technology has claimed such Super Deduction in ascertaining its tax assessable profits for the Track Record Period.

Loss for the Year

We recorded accumulated losses of RMB58.7 million, RMB236.3 million, RMB687.4 million, RMB504.4 million and RMB693.2 million as of December 31, 2019, 2020 and 2021 and June 30, 2021 and 2022, respectively. The accumulated losses in 2019, 2020, 2021 and for the six months ended June 30, 2021 were primarily attributable to net losses of RMB60.3 million, RMB177.1 million, RMB448.7 million, RMB268.1 million in 2019, 2020 and 2021 and for the six months ended June 30, 2021, respectively. Our loss-making performance in 2019, 2020, 2021 and for the six months ended June 30, 2021 was primarily attributable to (i) fair value change of financial liabilities at FVTPL at a loss of RMB10.1 million in 2019, a loss of RMB189.7 million in 2020, a loss of RMB433.9 million in 2021 and a loss of RMB278.2 million for the six months ended June 30, 2021, which were mainly driven by the increased valuation of our Company and did not involve any cash outflow, and (ii) the increase in distribution and selling expenses as well as finance cost. While the valuation of our Company increased for the six months ended June 30, 2022, equity investment by our Pre-[**REDACTED**] investors (recognized as financial liabilities at FVTPL) was diluted as a result of new shares issued pursuant to our employee incentive plans, resulting in fair value gain of RMB36.4 million, which improved our loss-making performance for the six months ended June 30, 2022.

DISCUSSION OF RESULTS OF OPERATIONS

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

Revenue

Our revenue increased by 59.1% from RMB536.9 million for the six months ended June 30, 2021 to RMB854.0 million for the six months ended June 30, 2022, mainly attributable to the increase in revenue across all our service lines.

- *Device recycling income*. Our device recycling income increased by 76.7% from RMB357.8 million for the six months ended June 30, 2021 to RMB632.1 million for the six months ended June 30, 2022. Such increase was attributable to (i) the increase in availability of de-commissioned IT devices as a result of the increasing disposal of de-commissioned IT devices by certain leading IT companies and (ii) our enhanced procurement capability due to the increase in upstream suppliers of de-commissioned IT devices from 190 for the six months ended June 30, 2021 to 205 for the six months ended June 30, 2022. As a result, the number of de-commissioned IT devices sold increased from approximately 203,000 for the six months ended June 30, 2021 to approximately 473,000 for the six months ended June 30, 2022.

- *Device subscription services*. Our revenue generated from device subscription services increased by 30.7% from RMB115.0 million for the six months ended June 30, 2021 to RMB150.4 million for the six months ended June 30, 2022, primarily due to primarily due to (i) significant growth in number of long-term device subscription customers from 6,058 for the six months ended June 30, 2021 to 9,966 for the six months ended June 30, 2022, (ii) the increase in number of devices for subscription from 429,588 for the six months ended June 30, 2021 to 488,993 for the six months ended June 30, 2022 as more devices were subscribed to satisfy the growing business needs of enterprises, and (iii) the average monthly subscription fees per device for device subscription services increased from RMB60.2 for the six months ended June 30, 2021 to RMB67.0 for the six months ended June 30, 2022 due to increase in subscription of laptop computers and printers which were on average priced relatively higher.

- *IT technical subscription services*. Our revenue generated from IT technical subscription services increased by 11.6% from RMB64.1 million for the six months ended June 30, 2021 to RMB71.5 million for the six months ended June 30, 2022, which was in line with the revenue growth of our device subscription services. The increase in revenue from IT technical subscription services was primarily attributable to the increase in average monthly subscription volume under IT technical subscription services from 200,671 for the six months ended June 30, 2021 to 257,409 for the six months ended June 30, 2022 as the number of IT device available for subscription increased as discussed above and the number of customers for IT technical subscription services increased from 7,708 to 10,367 during the corresponding periods, which was partially offset by the decrease in average monthly subscription fees per device for IT technical subscription services from RMB53.2 for the six months ended June 30, 2021 to RMB46.3 for the six months ended June 30, 2022 due to the increasing number of long-term subscriptions with lower subscription price.

Cost of sales

Our cost of sales increased by 71.6% from RMB439.7 million for the six months ended June 30, 2021 to RMB754.4 million for the six months ended June 30, 2022, which was generally in line with our revenue growth. The increase of costs of sales was mainly attributable to (i) the increase in the cost of inventories sold by 86.0% or RMB285.1 million for more de-commissioned devices purchased in response to the growth of our recycling services, and (ii) the increase in the depreciation by 32.0% or RMB25.6 million due to more devices purchased for subscription services.

- *Device recycling income*. Our cost of sales related to device recycling income increased by 85.5% from RMB333.9 million for the six months ended June 30, 2021 to RMB619.2 million for the six months ended June 30, 2022, which was in line with our revenue growth in device recycling business mainly due to more de-commissioned IT devices purchased.

- *Device subscription services*. Our cost of sales related to the provision of device subscription services increased by 26.9% from RMB89.2 million for the six months ended June 30, 2021 to RMB113.2 million for the six months ended June 30, 2022. This was primarily due to an increase in depreciation costs of RMB25.6 million caused by more devices purchased for our subscription services. The number of devices for subscription increased from 429,588 for the six months ended June 30, 2021 to 488,993 for the six months ended June 30, 2022. In order to meet the expected growth in demand for our device subscription services and to maintain our leading market position, we purchased more equipment for subscription, the total cost of which increased by 21.9% from RMB952.0 million as of June 30, 2021 to RMB1,160.4 million as of June 30, 2022.

- *IT technical subscription services*. Our cost of sales related to the provision of IT technical subscription services increased by 32.4% from RMB16.7 million for the six months ended June 30, 2021 to RMB22.0 million for the six months ended June 30, 2022. This was primarily due to the increase in (i) staff costs by RMB3.3 million driven by a larger service team (increased to 240 for the six months ended June 30, 2022 from 205 for the same period in 2021) and an increase in remuneration for better performance, and (ii) other costs (including logistics costs and operating expenses of our IT technical subscription services department) by RMB2.1 million in connection the business growth.

Gross Profit and Gross Profit Margin

Our overall gross profit increased by 2.4% from RMB97.2 million for the six months ended June 30, 2021 to RMB99.6 million for the six months ended June 30, 2022 as a result of the overall revenue growth for reasons mentioned above. Our gross profit margin decreased from 18.1% for the six months ended June 30, 2021 to 11.7% for the six months ended June 30, 2022.

- *Device recycling income.* Our gross profit of device recycling business decreased from RMB23.9 million for the six months ended June 30, 2021 to RMB12.9 million for the six months ended June 30, 2022. Our gross profit margin of device recycling business decreased from 6.7% for the six months ended June 30, 2021 to 2.0% for the six months ended June 30, 2022, primarily attributable to increasing cost of inventories sold by 86.0% from RMB331.4 million to RMB616.6 million during the corresponding periods due to the purchase of more de-commissioned IT devices, which is partially offset by the increasing average sales value per device of de-commissioned IT devices by 2.4% from RMB1,232.1 for the six months ended June 30, 2021 to RMB1,261.2 for the six months ended June 30, 2022.

- *Device subscription services.* Our gross profit of device subscription services increased from RMB25.8 million for the six months ended June 30, 2021 to RMB37.2 million for the six months ended June 30, 2022 as we managed to generate more subscription revenue by increasing the average monthly subscription volume from 318,445 for the six months ended June 30, 2021 to 373,911 for the six months ended June 30, 2022. Our gross profit margin of device subscription services increased from 22.5% for the six months ended June 30, 2021 to 24.7% for the six months ended June 30, 2022, primarily attributable to (i) an increase in the average monthly subscription fees per device under device subscription services from RMB60.2 for the six months ended June 30, 2021 to RMB67.0 for the six months ended June 30, 2022 for the reason discussed above, and (ii) proportion of our fixed costs for device subscription services (such as warehousing costs and staff costs) decreased as our business expanded. The average monthly utilization rates of our major types of devices for subscription decreased from 83.5% for the six months ended June 30, 2021 to 81.7% for the six months ended June 30, 2022. Our device subscription turnover rate (defined as "revenue from device subscription services" divided by "average cost of equipment for subscription") remained stable at 0.14 for the six months ended June 30, 2021 and 2022.

- *IT technical subscription services.* Our gross profit of IT device subscription services increased from RMB47.5 million for the six months ended June 30, 2021 to RMB49.5 million for the six months ended June 30, 2022. Our gross profit margin of IT technical subscription services decreased from 74.0% for the six months ended June 30, 2021 to 69.2% for the six months ended June 30, 2022, primarily attributable to (i) decrease in average monthly subscription price under IT technical subscription services from RMB53.2 for the six months ended June 30, 2021 to RMB46.3 for the six months ended June 30, 2022 for the reason discussed above, and (ii) the increase in staff cost by RMB3.3 million because we recruited more technical staff (from 205 for the six months ended June 30, 2021 to 240 for the six months ended June 30, 2022) aiming at address customers' demand in a more responsive manner.

Other Income

Other income increased by 59.1% from RMB5.4 million for the six months ended June 30, 2021 to RMB8.5 million for the six months ended June 30, 2022, primarily due to the increase of RMB2.0 million in compensation income from customers and increase of RMB1.4 million in government subsidies, including subsidies to support innovative development of SMEs and COVID-19 pandemic.

Fair value change of financial liabilities at FVTPL

Our fair value change of financial liabilities at FVTPL (representing equity investment by our Pre-[**REDACTED**] investors at the level of LX Technology) was a loss of RMB278.2 million for the six months ended June 30, 2021 compared to a gain of RMB36.4 million for the six months ended June 30, 2022. While the valuation of our Company increased for the six months ended June 30, 2022, equity investment by our Pre-[**REDACTED**] investors was diluted as a result of new shares issued pursuant to our employee incentive plans. Though anti-dilution rights were provided for in the investment agreements, our Pre-[**REDACTED**] investors agreed not to exercise such rights in respect of the new shares issued for our employee incentive plans since our employee incentive plans are set up to attract, engage and retain more talents for our Group. Their equity investment was diluted accordingly.

Impairment losses under expected credit loss model, net of reversal

Our impairment losses under expected credit loss model, net of reversal increased from RMB1.1 million for the six months ended June 30, 2021 to RMB2.9 million for the six months ended June 30, 2022 due to our effort in enhancing credit risk management. Our impairment losses under expected credit loss model, net of reversal as a percentage of revenue remained stable at 0.2% for the six months ended June 30, 2021 and 0.3% for the six months ended June 30, 2022.

Distribution and Selling Expenses

Our distribution and selling expenses increased by 28.6% from RMB50.5 million for the six months ended June 30, 2021 to RMB64.9 million for the six months ended June 30, 2022, primarily attributable to (i) the increased salaries and welfare of our sales and marketing team as the number of our sales and marketing staff increased from 208 for the six months ended June 30, 2021 to 258 for the six months ended June 30, 2022; and (ii) the addition of share-based payments expense of RMB7.4 million in connection with the new shares issued for our employee incentive plans in April 2022. Our distribution and selling expenses as a percentage of revenue decreased slightly from 9.4% for the six months ended June 30, 2021 to 7.6% for the six months ended June 30, 2022.

Administrative Expenses

Our administrative expenses increased by 95.9% from RMB18.1 million for the six months ended June 30, 2021 to RMB35.4 million for the six months ended June 30, 2022, primarily due to (i) share-based payments expense of RMB13.6 million in connection with the new shares issued for our employee incentive plans in April 2022 and (ii) increased salaries and welfare relating to our administrative staff as the number of our administrative and management staff increased from 68 for the six months ended June 30, 2021 to 78 for the six months ended June 30, 2022 to support our business expansion. Our administrative expenses as a percentage of revenue increased from 3.4% for the six months ended June 30, 2021 to 4.1% for the six months ended June 30, 2022.

Research and Development Expenses

Our research and development expenses increased by 62.7% from RMB8.0 million for the six months ended June 30, 2021 to RMB13.0 million for the six months ended June 30, 2022, primarily due to (i) share-based payments expense of RMB2.5 million in connection with the new shares issued for our employee incentive plans in April 2022; and (ii) increased salaries and welfare due to the increasing number of and competitive remuneration offered to research and development staff for the development of our DLM solutions. The number of our research and development staff increased from 67 for the six months ended June 30, 2021 to 79 for the six months ended June 30, 2022. Our research and development expenses as a percentage of revenue remained stable at 1.5% for the six months ended June 30, 2021 and 2022.

Finance Costs

Our finance costs increased by 50.9% from RMB14.6 million for the six months ended June 30, 2021 to RMB22.0 million for the six months ended June 30, 2022, primarily attributable to the increase of interest expenses driven by a larger balance of bank and other borrowings. For details, please see "– Indebtedness – Bank and other borrowings" below.

Income Tax (Credit)/Expense

Our income tax expense was RMB0.3 million for the six months ended June 30, 2021. For the six months ended June 30, 2022, our income tax credit was RMB1.3 million.

Loss and Total Comprehensive Expense for the Period

We reported a loss of approximately RMB5.8 million for the six months ended June 30, 2022, compared to a loss of RMB268.1 million for the six months ended June 30, 2021, primarily due to the fair value change of financial liabilities at FVTPL turned from a loss of RMB278.2 million for the six months ended June 30, 2021 to a profit of RMB36.4 million for the six months ended June 30, 2022 as explained above.

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

Revenue

Our revenue increased by 30.2% from RMB1,022.2 million in 2020 to RMB1,330.4 million in 2021, which was mainly attributable to the increase in revenue across all our service lines.

- *Device recycling income*. Our device recycling income increased by 20.8% from RMB765.2 million in 2020 to RMB924.4 million in 2021. Such increase was due to our effort to strengthen relationship with upstream suppliers, resulting in our enhanced procurement capability and better availability of de-commissioned IT devices, as demonstrated by the increase in upstream suppliers of de-commissioned IT devices from 277 in 2020 to 317 in 2021. As a result, the number of de-commissioned IT devices sold increased from approximately 599,000 in 2020 to approximately 857,000 in 2021.

- *Device subscription services*. Our revenue generated from device subscription services increased by 84.6% from RMB143.8 million in 2020 to RMB265.6 million in 2021, primarily due to (i) significant growth in number of device subscription customers from 6,671 in 2020 to 10,030 in 2021 as a result of our effort in sales and marketing and the support from our strategic Shareholders and business partners in the form of customer referral and traffic diversion, (ii) the increase in number of devices for subscription from 347,951 in 2020 to 455,357 in 2021 as more devices were subscribed to satisfy the growing business needs of enterprises, and (iii) the average monthly subscription fees per device for device subscription services increased from RMB52.0 in 2020 to RMB62.7 in 2021 due to increase in subscription of laptop computers and printers which were on average priced relatively higher.

- *IT technical subscription services*. Our revenue generated from IT technical subscription services increased by 24.1% from RMB113.1 million in 2020 to RMB140.4 million in 2021, which was in line with the revenue growth of our device subscription services. The increase in revenue from IT technical subscription services was primarily attributable to the increase in average monthly subscription volume under IT technical subscription services from 151,204 in 2020 to 228,662 in 2021 as both the number of IT device available for subscription and the number of IT technical subscription customers grew, which was partially offset by the average monthly subscription fees per device for IT technical subscription services decreased from RMB62.4 in 2020 to RMB51.2 in 2021 due to the increasing number of long-term subscriptions with lower subscription price.

Cost of sales

Our cost of sales increased by 29.9% from RMB875.3 million in 2020 to RMB1,137.3 million in 2021, which was generally in line with our revenue growth. The increase of costs of sales was mainly attributable to (i) the increase in the cost of inventories sold by 25.4% or RMB180.7 million for more de-commissioned devices purchased in response to the growth of our recycling services, and (ii) the increase in the depreciation by 48.4% or RMB59.4 million due to more devices purchased for subscription services.

- *Device recycling income*. Our cost of sales related to device recycling income increased by 25.1% from RMB715.6 million in 2020 to RMB895.3 million in 2021 mainly due to more de-commissioned IT devices purchased, which was in line with growth in device recycling income.

- *Device subscription services*. Our cost of sales related to the provision of device subscription services increased by 48.4% from RMB137.4 million in 2020 to RMB203.9 million in 2021. This was primarily due to an increase in depreciation costs of RMB59.4 million caused by more devices purchased for our subscription services. The number of devices for subscription increased from 347,951 in 2020 to 455,357 in 2021. In order to meet the expected growth in demand for our device subscription services and to maintain our leading market position, we purchased more equipment for subscription, the total cost of which increased by 45.7% from RMB714.4 million as of December 31, 2020 to RMB1,041.0 million as of December 31, 2021.

- *IT technical subscription services*. Our cost of sales related to the provision of IT technical subscription services increased by 70.6% from RMB22.3 million in 2020 to RMB38.0 million in 2021. This was primarily due to (i) the increase in staff costs by RMB9.3 million driven by a larger service team and increase in remuneration for better performance, and (ii) an increase in others including tax and surcharge, logistic and operational costs by RMB6.4 million.

Gross Profit and Gross Profit Margin

Our overall gross profit increased by 31.5% from RMB146.9 million in 2020 to RMB193.1 million in 2021 as a result of (i) the overall revenue growth for reasons mentioned above and (ii) increase revenue portion derived from in the device subscription services with a higher gross profit margin. Our gross profit margin remained stable at 14.4% in 2020 and 14.5% in 2021.

- *Device recycling income*. Our gross profit of device recycling business decreased from RMB49.6 million in 2020 to RMB29.1 million in 2021. Our gross profit margin of device recycling business decreased from 6.5% in 2020 to 3.1% in 2021, primarily due to (i) we sold our de-commissioned devices to certain leading companies which were new to us at lower average prices, aiming at developing long-term business relationship with them, and (ii) the market prices of IT devices dropped in the second half of 2021 following the easing of shortage caused by supply chain disruption while certain portion of our inventories of de-commissioned devices were purchased in 2020 and the first half of 2021 where the market prices of IT devices were high, and (iii) decreasing average sales value per device of de-commissioned IT devices from RMB914.5 in 2020 to RMB876.9 in 2021 due to a shift in our product mix towards products with lower value of other IT devices such as monitors and network switches, the revenue contribution of which increased from 2.3% from 2020 to 5.3% to 2021 as a percentage of our total revenue of device recycling business.

- *Device subscription services*. Our gross profit of device subscription services increased from RMB6.5 million in 2020 to RMB61.7 million in 2021 as we managed to generate more subscription revenue by increasing the device subscription volume from 2020 to 2021. Our gross profit margin of device subscription services increased from 4.5% in 2020 to 23.2% in 2021, primarily attributable to an increase in the average monthly subscription fees per device under device subscription services from RMB52.0 in 2020 to RMB62.7 in 2021 and device subscription turnover rate (defined as "revenue from device subscription services" divided by "average cost of equipment for subscription") from 0.25 in 2020 to 0.30 in 2021. Our device subscription turnover rate increased primarily due to (i) the rise in average monthly utilization rates, which resulted from the expansion of business scale and more frequent orders received from our customers; (ii) the empowerment of digital management system, which improved the Group's operational efficiency in device subscription services by streamlining the subscription process; and (iii) its enhanced refurbishment capabilities, which extended the service life of IT devices.

- *IT technical subscription services*. Our gross profit of IT device subscription services increased from RMB90.8 million in 2020 to RMB102.4 million in 2021. Our gross profit margin of IT technical subscription services decreased from 80.3% in 2020 to 72.9% in 2021, primarily attributable to (i) decrease in average monthly subscription price under IT technical subscription services from RMB62.4 in 2020 to RMB51.2 in 2021, and (ii) the increase in staff cost by RMB9.4 million because we recruited more technical staff (from 208 in 2020 to 238 in 2021) aiming at address customers' demand in a more responsive manner.

Other Income

We recorded other income of RMB13.6 million in 2020, as compared to that of RMB14.9 million in 2021, primarily due to the increased compensation income we received from customers primarily for early termination of contracts and damages to devices.

Fair value change of financial liabilities at FVTPL

Our fair value change of financial liabilities at FVTPL was a loss of RMB189.7 million in 2020 and a loss of RMB433.9 million in 2021, which was tied to the overall valuation of our Company. We had fair value loss of FVTPL in 2020 and 2021 as the valuation of our Company increased. For further details, please refer to "– Indebtedness – Financial liabilities at FVTPL" below.

Impairment losses under expected credit loss model, net of reversal

Our impairment losses under expected credit loss model, net of reversal remained relatively stable from RMB2.1 million in 2020 to RMB2.0 million in 2021. Our impairment losses under expected credit loss model, net of reversal as a percentage of revenue, slightly decreased from 0.2% in 2020 to 0.15% in 2021 as a result of our effort in enhancing credit risk management.

Distribution and Selling Expenses

Our distribution and selling expenses increased by 48.2% from RMB78.2 million in 2020 to RMB115.9 million in 2021, primarily attributable to (i) the increased salaries and welfare of our sales and marketing team as the number of our sales and marketing staff increased from 157 in 2020 to 290 in 2021; and (ii) our increased customer acquisition expenses paid to our business partners due to (a) our increasing sales of subscription services through our strategic Shareholders and business partners, which increased from RMB12.3 million in 2020 to RMB36.9 million in 2021; and (b) our increasing sales of de-commissioned IT devices through e-commerce platforms (including those operated by our strategic Shareholders), which increased from RMB65.8 million in 2020 to RMB69.0 million in 2021. The increase in our distribution and selling expenses was also in line with our business expansion. Our distribution and selling expenses as a percentage of revenue therefore increased slightly from 7.7% in 2020 to 8.7% in 2021.

Administrative Expenses

Our administrative expenses increased by 24.2% from RMB32.6 million in 2020 to RMB40.5 million in 2021, primarily due to the increased salaries and welfare relating to our administrative staff as the number of our administrative and management staff increased from 64 in 2020 to 80 in 2021 to support our business expansion. Our administrative expenses as a percentage of revenue remained stable in 2021.

Research and Development Expenses

Our research and development expenses increased by 33.9% from RMB13.7 million in 2020 to RMB18.3 million in 2021, primarily due to the increase in salaries and welfare due to the increasing number of and competitive remuneration offered to research and development staff for the development of our DLM solutions. The number of our research and development staff increased from 56 in 2020 to 80 in 2021. Our research and development expenses as a percentage of revenue remained stable in 2021.

Finance Costs

Our finance costs increased by 90.0% from RMB19.1 million in 2020 to RMB36.3 million in 2021, primarily attributable to increases in interest expenses as our bank borrowings increased from RMB303.6 million as of December 31, 2020 to RMB541.6 million as of December 31, 2021. For details, please see "– Indebtedness – Bank and other borrowings" below.

Income Tax (Credit)/Expense

Our income tax expense remained relatively stable at RMB2.2 million in 2020 and RMB2.4 million in 2021.

Loss and Total Comprehensive Expense for the Year

We reported a loss of approximately RMB448.7 million in 2021 compared to RMB177.1 million in 2020, primarily due to (i) the increased loss of fair value change of financial liabilities at FVTPL from RMB189.7 million in 2020 to RMB433.9 million in 2021, (ii) the [**REDACTED**] of RMB[**REDACTED**] million we incurred in 2021, and (iii) the increase in our finance costs in 2021 as explained above.

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

Revenue

Our revenue increased by 104.3% from RMB500.3 million in 2019 to RMB1,022.2 million in 2020, primarily due to increase in revenue generated from device recycling income and device subscription services.

- *Device recycling income*. Our device recycling income increased significantly by 152.7% from RMB302.8 million in 2019 to RMB765.2 million in 2020. Such increase was due to (i) better availability of de-commissioned IT devices, which was resulted from a larger supplier base and strengthened relationship with major suppliers. As a result, the number of de-commissioned IT devices sold increased significantly from approximately 151,000 in 2019 to approximately 599,000 in 2020, and (ii) the average revenue per device recycling customer increased from RMB252,791 in 2019 to RMB722,566 in 2020, which was partially offset by the decrease in the average sales value per device of de-commissioned IT devices from RMB1,211.6 in 2019 to RMB914.5 in 2020 due to shift in our product mix towards products with lower value such as monitors and network switches.

- *Device subscription services*. Our revenue generated from device subscription services increased by 75.2% from RMB82.1 million in 2019 to RMB143.8 million in 2020, primarily due to (i) growth in number of long-term device subscription customers from 5,068 in 2019 to 6,671 in 2020, (ii) increase in number of devices for subscription from 231,505 in 2019 to 347,951 in 2020 as more equipment for subscription was purchased to support our business growth, and (iii) the average monthly subscription fees per device for device subscription services increased from RMB43.6 in 2019 to RMB52.0 in 2020 due to increase in average subscription price of laptop computers, desktop computers and printers.

- *IT technical subscription services*. Our revenue generated from IT technical subscription services decreased slightly from RMB115.4 million in 2019 to RMB113.1 million in 2020 primarily due to the decrease in (i) the average monthly subscription price from RMB94.0 to RMB62.4 due to the increasing number of long-term subscriptions with lower subscription price and (ii) certain large corporates used our device subscription services on a standalone basis (i.e. without subscribing for our IT technical services).

Cost of sales

Our cost of sales increased by 108.3% from RMB420.2 million in 2019 to RMB875.3 million in 2020, which was generally in line with our revenue growth. The increase of costs of sales was mainly attributable to (i) the increase in the cost of inventories sold by 137.0% or RMB410.6 million, for more de-commissioned devices purchased in response to the growth of our recycling services, and (ii) the increase in the depreciation by 62.7% or RMB47.3 million due to more devices purchased for subscription services.

- *Device recycling income*. Our cost of sales related to the device recycling business increased by 136.5% from RMB302.6 million in 2019 to RMB715.6 million in 2020, which was in line with our revenue growth in device recycling business mainly due to more de-commissioned IT devices purchased.

- *Device subscription services*. Our cost of sales related to the provision of device subscription services increased by 42.5% from RMB96.4 million in 2019 to RMB137.4 million in 2020. This was primarily due to an increase in depreciation costs of RMB47.3 million as more devices were purchased for our subscription services, resulting in the increase in the number of devices for subscription from 231,505 in 2019 to 347,951 in 2020, which was consistent with the increase in total cost of equipment for subscription by 55.9% from RMB458.1 million as of December 31, 2019 to RMB714.4 million as of December 31, 2020.

- *IT technical subscription services*. Our cost of sales related to the provision of IT technical subscription services increased by 4.7% from RMB21.3 million in 2019 to RMB22.3 million in 2020, which was consistent with our effort to maintain an IT technical subscription service team to support our business. Such increase was primarily due to an increase in others including tax and surcharge, logistic and operational costs by RMB2.8 million, which was partially offset by a decrease in staff costs by RMB1.8 million.

Gross Profit and Gross Profit Margin

Our overall gross profit increased by 83.3% from RMB80.1 million in 2019 to RMB146.9 million in 2020 primarily attributable to the revenue growth and increase in gross profit of our device recycling income and device subscription services, which was partially offset by the decrease in revenue and gross profit from IT technical subscription services.

- *Device recycling income*. Our gross profit of device recycling business increased from RMB0.3 million in 2019 to RMB49.6 million in 2020. Our gross profit margin of device recycling business improved significantly from 0.1% in 2019 to 6.5% in 2020. The relatively low gross profit margin in 2019 was primarily due to the relatively higher bidding prices at which we purchased de-commissioned devices, aiming at establishing business relationship with and becoming pre-approved bidder for major suppliers of such devices. Notwithstanding that the average sales value of our de-commissioned devices decreased as a result of the change of product mix with more lower value products, our gross profit margin of device recycling business increased to 6.5% in 2020 primarily attributable to the stable supply and favorable procurement prices as we strengthened our relationship with our major suppliers of de-commissioned IT devices. In 2020, given we were already pre-approved bidder of certain major suppliers of de-commissioned devices, we were able to submit bids selectively after assessing the profit margin of different bidding opportunities and decided not to participate if the bidding price was too competitive and might adversely affect our gross profit margin. In addition, the market prices of IT devices rose due to shortage caused by supply chain disruption during the COVID-19 pandemic.

- *Device subscription services*. Gross loss and gross loss margin of our device subscription services in 2019 primarily resulted from lower prices offered to expand our device subscription services, which was approximately 16.2% lower than the subscription price in 2020. Gross profit of RMB6.5 million and gross profit margin of 4.5% was recorded for device subscription services in 2020. Our device subscription services began to show profitability as we managed to raise (i) our average monthly subscription price per device from RMB43.6 in 2019 to RMB52.0 in 2020 and (ii) device subscription turnover rate (defined as "revenue from device subscription services" divided by "average cost of equipment for subscription") from 0.23 in 2019 to 0.25 in 2020 for the reasons discussed in "– Discussion of Results of Operations – Year ended December 31, 2021 compared to year ended December 31, 2020 – Gross profit and gross profit margin."

- *IT technical subscription services*. Our gross profit of IT technical subscription services decreased from RMB94.1 million in 2019 to RMB90.8 million in 2020 as our revenue from IT technical subscription services decreased for the reasons discussed above. Our gross profit margin of IT technical subscription services decreased from 81.6% in 2019 to 80.3% in 2020, primarily attributable to (i) decrease in average monthly subscription price under IT technical subscription services from RMB94.0 in 2019 to RMB62.4 in 2020, and (ii) increase in costs of sales due to the increase in other costs, which were primarily project related expenses such as venues and temporary service staff.

Other Income

Other income increased by 234.0% from RMB4.1 million in 2019 to RMB13.6 million in 2020, primarily due to the increase of RMB7.0 million in government subsidies to support research and development projects and high-tech companies.

Fair value change of financial liabilities at FVTPL

Our fair value change of financial liabilities at FVTPL reached RMB10.1 million in 2019 and RMB189.7 million in 2020, mainly driven by the increased valuation of our Company. We had fair value loss of FVTPL in 2019 and 2020 in association with the increased valuation of our Company. For further details, please refer to "– Indebtedness – Financial liabilities at FVTPL" below.

Impairment losses under expected credit loss model, net of reversal

Our impairment losses under expected credit loss model, net of reversal remained relatively stable from 2019 to 2020. We recorded impairment losses of RMB2.1 million in 2019 and RMB2.1 million in 2020. Our impairment losses under expected credit loss model, net of reversal as a percentage of revenue decreased from 0.4% in 2019 to 0.2% in 2021 as a result of our effort in enhancing our credit risk management.

Distribution and Selling Expenses

Our distribution and selling expenses increased by 7.2% from RMB73.0 million in 2019 to RMB78.2 million in 2020, primarily because of the increase in customer acquisition expenses from RMB17.2 million in 2019 to RMB35.1 million in 2020 due to (a) our increasing sales of subscription services through our strategic Shareholders and business partners, which increased from RMB4.4 million in 2019 to RMB12.3 million in 2020; and (b) our increasing sales of de-commissioned IT devices through e-commerce platforms (including those operated by our strategic Shareholders), which increased from RMB52.2 million in 2019 to RMB65.8 million in 2020. The increase of our distribution and selling expenses from 2019 to 2020 was partially offset by the decrease in (i) salaries and welfare from RMB40.7 million in 2019 to RMB32.1 million in 2020, resulted from the reduction of social insurance contributions in accordance with measures promulgated by the government in response to COVID-19 outbreak in 2020; and (ii) marketing and promotion costs from RMB6.7 million in 2019 to RMB5.0 million in 2020, due to the reduced offline marketing activities during COVID-19 outbreak in 2020.

Administrative Expenses

Our administrative expenses decreased by 19.3% from RMB40.5 million in 2019 to RMB32.6 million in 2020, primarily due to (i) decreased salaries and welfare as a result of a reduction on the social insurance contributions for our employees in accordance with measures promulgated by the government in response to and (ii) decreased rental and utilities expenses pursuant to favorable national policies promulgated by the PRC Government which allowed rental expenses deduction in response to the COVID-19 outbreak.

Research and Development Expenses

Our research and development expenses increased by 13.5% from RMB12.0 million in 2019 to RMB13.7 million in 2020, primarily due to the increase in salaries and welfare due to the pay rise of research and development staff in 2020 for the development of our DLM solutions.

Finance Costs

Our finance costs increased by 59.2% from RMB12.0 million in 2019 to RMB19.1 million in 2020, primarily attributable to the increase of interest expenses driven by a larger balance of bank and other borrowings. For details, please see "– Indebtedness – Bank and other borrowings" below.

Income Tax (Credit)/Expense

Our tax credit was RMB6.9 million in 2019. In 2020, we incurred income tax expenses of RMB2.2 million as certain subsidiaries of the Group recorded taxable profit in 2020.

Loss and Total Comprehensive Expense for the Year

As a result of the foregoing, we reported a loss of approximately RMB177.1 million in 2020, compared to RMB60.3 million in 2019, primarily due to (i) the increased loss of fair value change of financial liabilities at FVTPL from RMB10.1 million in 2019 to RMB189.7 million in 2020, (ii) the increase in our distribution and selling expenses in 2020 as explained above, and (iii) the increase in our finance costs in 2020 as explained above.

DISCUSSION OF CERTAIN CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

The following table sets forth a summary of our consolidated statements of financial position as of the dates indicated.

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment and right-of-use assets	356,893	534,434	753,908	810,002
Deposits paid for acquisition of plant and equipment	2,270	4,461	1,773	1,221
Other receivables, deposits and prepayments	17,695	16,452	6,370	4,782
Restricted deposits	7,312	10,175	20,233	14,967
Deferred tax assets	9,609	7,738	5,481	6,763
Total non-current assets	393,779	573,260	787,765	837,735
Current assets				
Inventories	45,947	122,041	74,307	63,102
Trade and lease receivables	47,358	37,107	53,440	58,306
Other receivables, deposits and prepayments	62,488	119,141	134,329	132,117
Restricted deposits	4,260	9,152	9,423	18,806
Bank balances and cash	75,911	80,378	118,553	206,009
Total current assets	235,964	367,819	390,052	478,340
Current liabilities				
Trade payables	105,668	135,369	68,293	120,682
Other payables and accruals	40,575	37,140	58,396	54,553
Tax liabilities	42	39	24	3
Borrowings and lease liabilities	133,157	220,033	400,878	500,850
Contract liabilities	9,871	4,228	1,498	1,301
Total current liabilities	289,313	396,809	529,089	677,389
Net current liabilities	(53,349)	(28,990)	(139,037)	(199,049)

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities				
Borrowings and lease liabilities	73,899	107,625	161,869	170,519
Financial liabilities at FVTPL	256,841	606,533	1,117,083	1,080,666
Total non-current liabilities	330,740	714,158	1,278,952	1,251,185
Net assets (liabilities)	9,690	(169,888)	(630,224)	(612,499)
Capital and reserves				
Paid-in capital/share capital	55,000	55,000	54,156	505
Reserves	(45,985)	(224,888)	(684,380)	(613,004)
Equity attributable to owners of the Company	9,015	(169,888)	(630,224)	(612,499)
Non-controlling interests	675	–	–	–
Total equity (deficit)	9,690	(169,888)	(630,224)	(612,499)

Net current liabilities

We recorded net current liabilities of RMB53.3 million, RMB29.0 million, RMB139.0 million and RMB199.0 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively, primarily because a major portion of our devices for subscription (being classified as non-current assets) were purchased using borrowings from banks and other financial institutions (primarily term loans of 2 years, with portion repayable within one year being classified as current liabilities). The increase in net current liabilities in 2021 was primarily due to the increases in borrowings to purchase IT devices for our business expansion.

Our net current liabilities decreased from RMB53.3 million as of December 31, 2019 to RMB29.0 million as of December 31, 2020, primarily due to (i) an increase in our inventories of RMB76.1 million, and (ii) an increase in other receivables, deposits and prepayments of RMB56.7 million, which was partially offset by (i) an increase in current borrowing and lease liabilities of RMB86.9 million, and (ii) an increase in trade payables of RMB29.7 million.

Our net current liabilities increased from RMB29.0 million as of December 31, 2020 to RMB139.0 million as of December 31, 2021, primarily due to (i) an increase in current borrowing and lease liabilities of RMB180.8 million in our current liabilities, (ii) decrease in inventories of RMB47.7 million, and (iii) an increase in other payables and accruals of RMB21.3 million, which was partially offset by (i) decrease in trade payables of RMB67.1 million, (ii) an increase in our bank balances and cash of RMB38.2 million, (iii) an increase in other receivables, deposits and prepayments of RMB15.2 million, and (iv) an increase in trade and lease receivables of RMB16.3 million. The increase in (i) current borrowings and lease liabilities, and (ii) trade and lease receivables were mainly driven by our business expansion. Fluctuations in inventories (primarily IT devices held for sale) were resulted from the availability of de-commissioned devices while decrease in trade payables was due to our efforts to accelerate the settlement of payables to secure a steady supply of devices.

Our net current liabilities increased from RMB139.0 million as of December 31, 2021 to RMB199.0 million as of June 30, 2022, primarily due to (i) an increase in borrowings and lease liabilities of RMB100.0 million, (ii) an increase in trade payables of RMB52.4 million, which was partially offset by an increase in bank balances and cash of RMB87.5 million.

We expect to improve our net current liabilities position, as (i) we will manage to maintain optimal inventory levels, strengthen control over management of credit terms and enhanced collection of trade receivables; and (ii) we can utilize other financial resources available to us, including the net proceeds from the [**REDACTED**], our current cash and cash equivalents and our net cash flows from operation activities to purchase our devices for subscription, which would lower our current liabilities by reducing current borrowings from banks and other financial institutions repayable within one year.

Net liabilities and accumulated losses

We recorded net assets of RMB9.7 million as of December 31, 2019 and net liabilities of RMB169.9 million, RMB630.2 million and RMB612.5 million as of December 31, 2020 and 2021 and June 30, 2022, respectively. Our net liabilities position as of December 31, 2020 and 2021 and June 30, 2022 was primarily due to the increase in the fair value of investment by the Pre-[**REDACTED**] Investors, which were recognized as financial liabilities at FVTPL. For details, please see "Financial Information – Indebtedness – Financial liabilities at FVTPL." Such financial liabilities at FVTPL will be automatically converted into equity upon the [**REDACTED**]. For details of the conversion of Preferred Shares, please refer to "History, Reorganization and Corporate Structure – Capitalization Issue and Conversion of Preferred Shares."

Assets

Property, plant and equipment and right-of-use assets

Our property, plant and equipment and right-of-use assets primarily consist of leased properties, equipment for subscription, office equipment, motor vehicles and lease improvement.

The following table sets forth the carrying value of our property, plant and equipment and right-of-use assets as of the dates indicated.

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Leased properties	29,053	21,908	18,743	15,740
Equipment for subscription	319,915	503,714	725,914	786,806
Office equipment	1,334	4,333	4,982	4,495
Motor vehicles	2,187	1,560	1,403	1,128
Leasehold improvements	4,404	2,919	2,866	1,833
Total	356,893	534,434	753,908	810,002

Our property, plant and equipment and right-of-use assets increased from RMB356.9 million as of December 31, 2019, to RMB534.4 million as of December 31, 2020, to RMB753.9 million as of December 31, 2021, and further to RMB810.0 million as of June 30, 2022, primarily attributable to (i) additions of equipment for subscription amounting to RMB350.6 million, RMB486.2 million and RMB202.8 for our device subscription services in 2020 and 2021 and for the six months ended June 30, 2022, respectively; and (ii) partially offset by the depreciation charge amounting to approximately RMB120.2 million, RMB180.7 million and RMB105.8 million in 2020 and 2021 and for the six months ended June 30, 2022, respectively. The increase in acquisition of equipment for subscription in response to the increasing demand for IT devices was in line with our business expansion plan for device subscription services.

Inventories

Our inventories primarily consist of (i) de-commissioned IT devices such as laptops, monitors, tablet computers acquired via and held for sale under our device recycling business and (ii) device components and accessories. Our inventories increased from RMB45.9 million as of December 31, 2019 to RMB122.0 million as of December 31, 2020, but decreased to RMB74.3 million as of December 31, 2021, and further decreased to RMB63.1 million as of June 30, 2022. While we have managed to maintain a reasonable balance of inventories throughout the Track Record Period, our inventories of IT devices held for sale at a particular date were affected by the availability of de-commissioned devices, which was in turn driven by when our suppliers disposed of such devices. As there was sufficient customer demand for our de-commissioned devices purchased, we have managed to maintain a relatively quick turnover of our inventory and have not experienced any recoverability issue during the Track Record Period.

Set out below is the aging analysis of our inventory as of December 31, 2019, 2020 and 2021 and June 30, 2022:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
<30 days	25,786	90,494	13,891	13,802
31-60 days	9,222	13,803	11,018	11,286
61-90 days	3,596	5,070	9,562	10,055
over 90 days	8,299	14,743	40,893	28,798
Provision for inventories	(956)	(2,069)	(1,057)	(839)
Total	45,947	122,041	74,307	63,102

We adjusted our inventory management policy from time to time based on customer preference, market demand and the disposal plans of our suppliers. Our inventories aged over 90 days amounted to RMB8.3 million, RMB14.7 million, RMB40.9 million and RMB28.8 million as at December 31, 2019, 2020 and 2021 and June 30, 2022, respectively, representing 18.1%, 12.1%, 55.0% and 45.6% of our total inventories as at the respective dates. Inventories aged over 90 days accounted for a higher portion as of December 31, 2021 as we purchased more de-commissioned devices of newer models and longer remaining useful life, allowing us to hold such devices longer for the favorable prices to come.

The following table sets forth the subsequent utilization as of September 30, 2022 of our inventory by each of the age groups, as of June 30, 2022:

	Balance as of June 30, 2022	Subsequent utilization as of September 30, 2022	Percentage of subsequent utilization as of September 30, 2022
	(RMB'000)	*(RMB'000)*	%
<30 days	13,802	10,178	73.7
31-60 days	11,286	7,659	67.9
61-90 days	10,055	4,502	44.8
over 90 days	28,798	12,892	44.8
Total	63,941	35,231	55.1

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

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Inventory turnover days(1)	31.4	35.0	31.5	16.4

Note:

(1) Inventory turnover days was calculated based on the average of opening and closing inventory balance for the relevant year/period, divided by the cost of sales for the same year, and multiplied by number of days within the relevant year/period, being 365 or 180 days.

Our inventory turnover days remained relatively stable from 2019 to 2021. Our inventory turnover days decreased from 31.5 days in 2021 to 16.4 days for the six months ended June 30, 2022, primarily due to quicker turnover for the device recycling business. Typically, we intended to maintain around one month's worth of inventory. We closely monitor our inventory level to ensure sufficient stock to satisfy customer demand and avoid excessive stock at the same time.

As of September 30, 2022, RMB35.2 million, or 55.1% of our inventories as of June 30, 2022 had been sold or utilized. We believe that there is no recoverability issue for our inventories, given that (i) the provision of our inventories has been determined with reference to several factors including the market price and validity period of inventories recorded during the Track Record Period; and (ii) in addition to the subsequent utilization of inventories, our inventory turnover days also provided useful information as to the overall utilization of inventories during the Track Record Period. For the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2022, our turnover days were 31.4 days, 35.0 days, 31.5 days and 16.4 days, respectively, indicating that inventories shall be generally sold or utilized approximately one month and we maintained effective inventory management policy.

Trade and lease receivables

During the Track Record Period, our trade and lease receivables represent receivables from customers for (i) operating lease relating to device subscription services, and (ii) contracts with customers relating to device recycling business and IT technical subscription services. The credit period generally given to our customers was less than 90 days. The following table sets forth our trade and lease receivables as of the dates indicated.

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and lease receivables				
– third parties	49,264	39,678	57,052	63,207
– related parties	706	1,104	2,033	3,665
Less: allowance for credit losses	(2,612)	(3,675)	(5,645)	(8,566)
	47,358	37,107	53,440	58,306

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

	Year ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
Trade and lease receivables turnover days[1]	24.8	15.1	12.4	11.8

Note:

(1) Trade and lease receivables turnover days for a year/period equals the average of opening and closing trade and lease receivables balance divided by revenue for the relevant year/period and multiplied by the number of days in the relevant year/period, being 365 or 180 days.

Our trade and lease receivables decreased from RMB47.4 million in 2019 to RMB37.1 million in 2020, primarily due to the decrease in receivables from third parties from RMB49.3 million as of December 31,2019 to RMB39.7 million as of December 31, 2020 as a result of our effort to collect overdue payments from customers. Our trade and lease receivables increased from RMB37.1 million in 2020 to RMB53.4 million in 2021 and from RMB53.4 million in 2021 to RMB58.3 million for the six months ended June 30, 2022, primarily due to increase in revenue generated from the increasing amount of subscriptions and sales from all service lines, which was in line with our business expansion. With our effort to strengthen control and risk management capabilities over trade receivables, our receivable turnover days decreased from 24.8 days in 2019 to 15.1 days in 2020, and further decreased to 12.4 days in 2021 and 11.8 days for the six months ended June 30, 2022.

The following table sets forth an aging analysis of our trade and lease receivables, net of allowance for credit losses, presented based on the invoice dates at the end of each Track Record Period.

	Year ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	31,450	17,852	30,605	36,602
31-60 days	6,830	6,367	7,557	3,344
61-90 days	1,222	4,741	5,137	5,509
91-180 days	3,413	2,518	7,326	7,803
181-365 days	3,454	3,386	691	3,897
Over 365 days	989	2,243	2,124	1,151
	47,358	37,107	53,440	58,306

As of September 30, 2022, approximately RMB45.4 million or 67.9% of our trade and lease receivables as of June 30, 2022 had been settled. The subsequent settlement of the remaining 32.1% of the trade and lease receivables as of June 30, 2022 has been ongoing and we are in normal business cooperation with the corresponding customers. We believe the risk of not being able to recover the relevant trade and lease receivables is relatively low, given that (i) 68.5% of our outstanding trade and lease receivables as of June 30, 2022 aged less than two months and our trade and lease receivables shall be generally settled within two months which were in line with our credit terms granted; (ii) we implemented strict credit control policy of trade and lease receivables; and (iii) our allowance for credit losses has properly reflected the risks association with those trade and lease receivables during the Track Record Period based on expected credit loss model.

Other receivables, deposits and prepayments

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayment for operating expenses	29,675	59,618	34,701	27,158
Rental deposits	2,204	2,068	2,068	2,107
Advances to suppliers	626	1,065	3,796	345
Value-added tax receivables	42,752	68,943	85,120	90,538
Other deposits paid	3,341	2,131	10,317	8,648
Deferred [**REDACTED**]	–	–	[**REDACTED**]	[**REDACTED**]
Others	1,585	1,768	2,370	2,728
Represented by:				
– *Non-current*	17,695	16,452	6,370	4,782
– *Current*	62,488	119,141	134,329	132,117
Total	80,183	135,593	[**REDACTED**]	[**REDACTED**]

Our other receivables, deposits and prepayments increased from RMB80.2 million in 2019 to RMB135.6 million in 2020, primarily due to the increase in (i) prepayment for operating expenses by RMB29.9 million as the Group entered into new cooperation agreements with business partners in 2020 and prepaid for marketing and promotion services, and (ii) VAT receivables by RMB26.2 million as a result of the significant increase in purchase of equipment for subscription in response to continual surge in demand of our device subscription services.

Our other receivables, deposits and prepayments increased from RMB135.6 million in 2020 to RMB140.7 million in 2021, primarily due to (i) the increase in VAT receivables by RMB16.2 million as explained above and (ii) other deposits paid for financing by RMB8.2 million, which was partially offset by the decrease in prepayment for operating expenses by RMB24.9 million due to increasing portion of usage of prepaid customer acquisition costs on third party e-commerce platforms.

Our other receivables, deposits and prepayments slightly decreased from RMB140.7 million in 2021 to RMB136.9 million for the six months ended June 30, 2022, primarily due to the decrease in prepayment for operating expenses by RMB7.5 million due to increasing portion of usage of prepaid customer acquisition costs on third party e-commerce platform, which was partially offset by the increase in value-added tax receivables by RMB5.4 million.

Prepayment for operating expenses represented the amount prepaid for marketing and promotion services to be provided by third-party service providers, including strategic Shareholders and business partners, i.e. JD.com and Tencent. According to CIC, leading e-commerce or internet platforms in China usually require the customers to maintain sufficient amount in their accounts registered with such platforms when customers purchase advertising services from them. The service fees are billed by such platforms after the delivery of advertising services on basis such as cost per mille (CPM) or cost per click (CPC) with reference to the marketing effect achieved and deducted from the customers' accounts registered with such platforms.

As of September 30, 2022, approximately RMB5.6 million or 20.5% of our prepayments for operating expenses as of June 30, 2022 had been utilized. We assess the recoverability of prepayments for operating expenses by considering factors such as contract terms, historical utilization records, creditworthiness and operating condition of the relevant counterparties. The prepayments for operating expenses will be utilized after the delivery of advertising and user traffic diversion services. According to the relevant contract terms, and based on our latest discussion with the relevant counterparties, being leading e-commerce platforms and technology companies, and the increasing portion of our usage of prepaid marketing and promotion services on third party e-commerce platforms, we expect the remaining unutilized prepayments for operating expenses as of June 30, 2022 will be utilized by the end of 2023. Furthermore, our Directors are of the view that the third-party service providers to whom we made prepayment for operating expenses during the Track Record Period are mainly reputable and sizable corporations with good credit ratings. Therefore, we believe there is no recoverability issue for our prepayments for operating expenses.

Bank balances and cash

Our bank balance and cash consist of our bank balances and cash and restricted deposits. Bank balances carry interest at market rates which range from 0.3% to 1.5% per annum. Restricted deposits carry fixed interest rate of 0.3% and represent deposits pledged to banks to secure banking facilities granted to the Group. Our bank balance and cash amounted to approximately RMB75.9 million, RMB80.4 million, RMB118.6 million and RMB206.0 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. The increases in our bank balance and cash were mainly due to the increases in our net cash flows from operating activities.

Liabilities

Trade payables

Our trade payables represent procurements payable to suppliers for the purchase of IT devices. The following table sets forth our trade payables as of the dates indicated.

	Year ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Third parties	41,098	60,784	54,637	108,974
Related parties	64,570	74,585	13,656	11,708
	105,668	135,369	68,293	120,682

As our inventories of IT devices held for sale at a particular date were affected by the availability of de-commissioned devices, which was in turn driven by when our suppliers disposed of such devices, our procurement volume and trade payables were affected accordingly.

The credit period granted by our suppliers was within 0 to 90 days. The aging analysis of the Group's trade payables based on the invoice dates at the end of each Track Record Period are as follows:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within six months	73,855	78,948	52,548	92,501
From six months to 12 months	27,331	14,083	1,167	25,809
Over one year	4,482	42,338	14,578	2,372
Total	105,668	135,369	68,293	120,682

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

	Year ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
Trade payables turnover days(1)	61.9	50.3	32.7	22.5

Note:

(1) Trade payables turnover days for a year/period equals the average of opening and closing trade payables balance divided by cost of sales for the relevant year/period and multiplied by the number of days in the relevant year/period, being 365 or 180 days.

Our trade payables turnover days decreased from 61.9 days in 2019 to 50.3 days in 2020, to 32.7 days in 2021 and further decreased to 22.5 days for the six months ended June 30, 2022, primarily due to our efforts to accelerate the settlement of payables to secure a steady supply of devices.

As of September 30, 2022, approximately RMB77.6 million or 64.3% of the outstanding balance of our trade payables as of June 30, 2022 had been settled.

Other payables and accruals

Other payables primarily consist of (i) accrued staff costs and retirement benefit scheme contributions, (ii) advance from leasing customers under device subscription services, (iii) other tax payables, (iv) secured and other deposits received, (v) accrued expenses, (vi) accrued [**REDACTED**], (vii) accrued [**REDACTED**], and (viii) others. The following table sets forth a breakdown of our other payables as of the dates indicated.

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accrued staff costs and retirement benefit scheme contributions	17,183	14,943	24,382	22,636
Advance from leasing customers under device subscription service	11,220	12,562	18,002	19,818
Other tax payables	5,276	2,625	5,463	924
Secured and other deposits received	3,742	3,298	3,951	4,784
Accrued expenses	2,054	3,425	2,041	1,463
Accrued [**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Accrued [**REDACTED**]	–	–	[**REDACTED**]	[**REDACTED**]
Others	1,100	287	643	600
Represented by:				
– *third parties*	39,070	34,252	54,769	49,640
– *related parties*	1,505	2,888	3,627	4,913
Total	40,575	37,140	58,396	54,553

Our other payables and accruals decreased slightly from RMB40.6 million as of December 31, 2019 to RMB37.1 million as of December 31, 2020, primarily due to the decrease in accrued staff costs and retirement benefit scheme contributions by RMB2.2 million in 2020 under the impact of the COVID-19 pandemic.

Our other payables and accruals increased from RMB37.1 million as of December 31, 2020 to RMB58.4 million as of December 31, 2021, primarily due to the increase in (i) accrued staff costs and retirement benefit scheme contributions by RMB9.4 million as we increased the number of employees in 2021, (ii) advances from customers under device subscription service by RMB5.4 million, being the amount received in advance from device subscription customers before they receive services, which was in line with the revenue growth of our device subscription service.

Our other payables and accruals decreased from RMB58.4 million as of December 31, 2021 to RMB54.6 million as of June 30, 2022, primarily due to the decrease in other tax payable of RMB4.5 million as the deductible amount from purchase of IT devices outweighed the output amount from the disposal of IT devices.

Contract liabilities (Current)

Our contract liabilities primarily reflect payments received in advance under device recycling business. They are recognized when we receive an amount from customers before goods are delivered and decreased when revenue is recognized upon delivery of goods. For the device recycling business, we typically receive in full total consideration from majority of our customers when they enter into contracts with us.

Our contract liabilities decreased from RMB9.9 million as of December 31, 2019 to RMB4.2 million as of December 31, 2020 and further decreased to RMB1.5 million and RMB1.3 million as of December 31, 2021 and June 30, 2022 respectively, which was due to the decrease in the number of undelivered IT devices at the end of each year under our device recycling business.

As of September 30, 2022, approximately RMB1.2 million, or 91.4%, of our contract liabilities as of June 30, 2022 was recognized as revenue.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from cash generated from operations, bank borrowing, finance lease as well as capital contributed by shareholders. After the [**REDACTED**], we intend to finance our future capital requirements through cash generated from operations, net proceeds from the [**REDACTED**], and other future equity or debt financings. We currently do not anticipate any significant changes to the availability of financing in the near future.

Cash Flows

The following table sets forth our cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Operating cash flows before movements in working capital	39,905	167,668	217,578	111,283	116,213
Cash generated from operations	58,605	110,230	278,969	120,271	194,094
Income tax refund (paid)	59	(296)	(189)	(145)	(1,188)
Net cash from operating activities	58,664	109,934	278,780	120,126	192,906
Net cash used in investing activities	(223,780)	(319,982)	(450,974)	(269,139)	(171,934)
Net cash from financing activities	229,063	214,515	210,369	151,752	62,789
NET INCREASE IN CASH AND CASH EQUIVALENTS	63,947	4,467	38,175	2,739	83,761
Cash and cash equivalents at JANUARY 1	11,964	75,911	80,378	80,378	118,553
CASH AND CASH EQUIVALENTS AT THE END OF YEAR/PERIOD, represented by bank balances and cash	75,911	80,378	118,553	83,117	206,009

Net Cash from Operating Activities

Net cash generated from operating activities represent cash generated from operations minus income tax paid. Cash generated from operating activities primarily reflects (i) our loss before tax adjusted for non-cash and non-operating items, such as depreciation, and (ii) the effects of changes in our working capital.

For 2019, net cash generated from operating activities was RMB58.7 million, which was primarily attributable to our loss before tax of RMB67.2 million, as adjusted by (i) non-cash items, which primarily comprised of depreciation of property, plant and equipment and right-of-use assets of RMB82.2 million, fair value change of financial liabilities at FVTPL of RMB10.1 million and finance costs of RMB12.0 million, and (ii) changes in working capital, which primarily comprised of (a) an increase in trade payables of RMB68.8 million due to the increase in purchases of IT devices to meet the business growth in the device recycling business and device subscription service, (b) an increase in other receivables, deposits and prepayments of RMB47.8 million due to increase in prepayment of operating expenses in relation to marketing and promotion services, (c) an increase in trade and lease receivables of RMB28.8 million due to sales of de-commissioned IT devices and increase in the subscriptions of our device subscription services, and (d) an increase in other payables and accruals of RMB22.6 million due to increase in accrued staff costs and advance from customers under device subscription services.

For 2020, net cash generated from operating activities was RMB109.9 million, which was primarily attributable to our loss before tax of RMB175.0 million, as adjusted by (i) non-cash items, which primarily comprised of depreciation of property, plant and equipment and right-of-use assets of RMB131.2 million, fair value change of financial liabilities at FVTPL of RMB189.7 million and finance costs of RMB19.1 million, and (ii) changes in working capital, which primarily comprised of (a) an increase in other receivables, deposits and prepayments of RMB55.5 million, (b) an increase in inventories of RMB30.7 million, and (c) an increase in trade payables of RMB29.7 million due to the increase in purchases of IT devices to meet the business growth in the device recycling business and device subscription service.

For 2021, net cash generated from operating activities was RMB278.8 million, which was primarily attributable to our loss before tax of RMB446.3 million, as adjusted by (i) non-cash items, which primarily comprised of (a) fair value change of financial liabilities at FVTPL of RMB433.9 million, (b) depreciation of property, plant and equipment and right-of-use assets of RMB193.3 million and (c) finance costs of RMB36.3 million, and (ii) changes in working capital, which primarily comprised of (a) a decrease in inventories of RMB132.0 million as our inventories of IT devices held for sale at a particular date were affected by the availability of de-commissioned devices, (b) a decrease in trade payables of RMB67.1 million due to faster settlement made to our suppliers to secure a stable supply of devices. Our trade payables turnover days decreased from 61.9 days in 2019 to 50.3 days in 2020, and further decreased to 32.7 days in 2021, (c) an increase in other payables and accruals of RMB20.3 million, and (d) an increase in trade and lease receivables of RMB18.3 million due to revenue growth across all service lines.

For the six months ended June 30, 2022, net cash generated from operating activities was RMB192.9 million, which was primarily attributable to our loss before tax of RMB7.1 million, as adjusted by (i) non-cash items, which primarily comprised of (a) depreciation of property, plant and equipment and right-of-use assets of RMB112.2 million, (b) fair value change of financial liabilities at FVTPL of RMB36.4 million, (c) share-based payments expense of RMB23.6 million and (d) finance costs of RMB22.0 million, and (ii) changes in working capital, which primarily comprised of (a) a decrease in inventories of RMB29.1 million, (b) an increase in trade payables of RMB52.4 million, (c) a decrease in other receivables, deposits and prepayments of RMB8.0 million, and (d) an increase in trade and lease receivables of RMB7.8 million due to revenue growth across all service lines.

Net Cash Used in Investing Activities

Our cash used in investing activities consists primarily of purchase of property, plant and equipment, deposits paid for acquisition of property, plant and equipment, placement of restricted deposits and placement of rental deposits. Our cash generated from investing activities consists primarily of interest received, withdrawal of restricted deposits and withdrawal of rental deposits.

For 2019, net cash used in investing activities was RMB223.8 million, which was primarily attributable to purchase of property, plant and equipment, mainly IT devices of RMB209.3 million.

For 2020, net cash used in investing activities was RMB320.0 million, which was primarily attributable to purchase of property, plant and equipment, mainly IT devices of RMB308.5 million.

For 2021, net cash used in investing activities was RMB451.0 million, which was primarily attributable to purchase of property, plant and equipment, mainly IT devices of RMB439.5 million.

For the six months ended June 30, 2022, net cash used in investing activities was RMB171.9 million, which was primarily attributable to purchase of property, plant and equipment, mainly IT devices of RMB166.7 million.

Net Cash from Financing Activities

Our cash from financing activities consists primarily of new borrowings raised and proceeds from various rounds of pre-[**REDACTED**] investments completed during the Track Record Period. Our cash used in financing activities consists primarily of repayments of borrowings, interest paid, repayments of lease liabilities, acquisition of non-controlling interests in subsidiaries, payments of [**REDACTED**] for financial liabilities at FVTPL and payments of accrued [**REDACTED**].

For 2019, net cash generated from financing activities was RMB229.1 million, which was primarily attributable to new borrowings raised of RMB193.2 million, proceeds from issue of financial liabilities at FVTPL of RMB168.5 million, and was partially offset by repayments of borrowings of RMB108.0 million.

For 2020, net cash generated from financing activities was RMB214.5 million, which was primarily attributable to new borrowings raised of RMB278.6 million, proceeds from issue of financial liabilities at FVTPL of RMB160.0 million, and was partially offset by repayments of borrowings of RMB195.5 million.

For 2021, net cash generated from financing activities was RMB210.4 million, which was primarily attributable to new borrowings raised of RMB567.9 million, proceeds from issue of financial liabilities at FVTPL of RMB65.0 million, and was partially offset by repayments of borrowings of RMB376.1 million.

For the six months ended June 30, 2022, net cash from financing activities was RMB62.8 million, which was primarily attributable to new borrowings raised of RMB355.6 million, and was partially offset by repayments of borrowings of RMB263.8 million.

INDEBTEDNESS

Our indebtedness primarily comprises (i) bank and other borrowings, (ii) lease liabilities, and (iii) financial liabilities at FVTPL. The following table sets forth a breakdown of our indebtedness as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)
Bank and other borrowings	176,343	303,564	541,584	653,511	572,992
Lease liabilities	30,713	24,094	21,163	17,858	15,145
Financial liabilities at FVTPL	256,841	606,533	1,117,083	1,080,666	1,082,569
Total indebtedness	463,897	934,191	1,679,830	1,752,035	1,670,706

Bank and other borrowings

During the Track Record Period, our bank borrowings and other borrowings are on normal commercial terms. Our other borrowings are primarily borrowings from financial leasing companies. The following table sets forth the principal amounts of our current and non-current bank borrowings and other borrowings as of the dates indicated.

	As of December 31,			As of June 30,	As of September 30,
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)
Fixed rate bank borrowings	68,050	118,882	211,606	333,406	307,730
Fixed rate other borrowings	108,293	184,682	329,978	320,105	265,262
	176,343	303,564	541,584	653,511	572,992
Represented by:					
– secured	49,273	49,961	140,382	117,062	91,809
– unsecured	127,070	253,603	401,202	536,449	481,183
Total bank and other borrowings	176,343	303,564	541,584	653,511	572,992

As of September 30, 2022, we had borrowing with a carrying amount of approximately RMB307.7 million bank borrowings and RMB265.3 million other borrowings, comprising (i) approximately RMB481.2 million of unsecured and guaranteed bank and other borrowings, and (ii) approximately RMB91.8 million of secured and guaranteed bank and other borrowings.

Our total outstanding borrowings increased from RMB176.3 million as of December 31, 2019 to RMB303.6 million as of December 31, 2020, increased to RMB541.6 million as of December 31, 2021, and further increased to RMB653.5 million as of June 30, 2022, primarily due to increasing financing activities as a result of our business expansion, which was used to pay for IT devices we purchased during the Track Record Period. During the Track Record Period, we financed our purchase of IT devices with both internal resources (i.e. operating cash flow) and external financing (i.e. bank and other borrowings as well as pre-[**REDACTED**] equity investments). Bank and other borrowings have been an important financing alternative for us as (i) based on the long established business relationships with commercial banks and financial leasing companies, the time required to negotiate borrowings is generally shorter compared to pre-[**REDACTED**] equity financing; (ii) interest expenses incurred on borrowings are tax deductible; (iii) there would not be any dilution to the existing Shareholders' interests; and (iv) certain cash generated from our operations can remain on hand for prudent financial management. The increase in fixed rate bank and other borrowings during the Track Record Period was due to more equipment for subscription purchased in response to the increasing demand for IT devices to support our business expansion plan. During the Track Record Period, our fixed rate borrowings from financial leasing companies accounted for a larger portion when compared to borrowings from commercial banks, as the former are generally more willing to offer borrowing with longer terms, and we prefer cooperating with financial institutions that could provide long-term borrowings to support our business needs. Our fixed rate borrowings from financial leasing companies as a percentage of the total borrowings was relatively stable at 61.4% in 2019, 60.8% in 2020 and 60.9% in 2021, and decreased to 49.0% for the six months ended June 30, 2022. During the Track Record Period, our fixed rate other borrowings generally had a term of two years or above, while the terms of our fixed rate bank borrowings generally ranged from one year to two years.

The lenders of our fixed rate other borrowings are mainly financial leasing companies. Save as disclosed under "– Related Party Transactions" in this section, such financial leasing companies are Independent Third Parties to us. As of June 30, 2022, our borrowings were secured by restricted deposits and/or our self-owned IT devices.

The unsecured borrowings as of December 31, 2019, 2020 and 2021 and June 30, 2022 are guaranteed by (i) a director, Mr. Hu Zuoxiong, (ii) Mr. Hu Zuoxiong's spouse, Ms. Zhao Lin, and (iii) Shenzhen High-tech Investment Group Co., Ltd. (深圳市高新投集團有限公司), an independent third party, which is a financial services institution. As represented by the directors of the Company, the guarantees provided by Mr. Hu, his spouse and the independent third party will be released before [**REDACTED**] of the Company's shares on the Stock Exchange.

The effective interest rates of our Group's borrowings ranged from 5.6% to 15.5%, 5.4% to 15.5%, 5.2% to 12.8%, 4.0% to 12.0% per annum for years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022 respectively. The effective interest rates of fixed rate other borrowings ranged from 7.3% to 15.5%, 7.3% to 15.5%, 6.3% to 12.8%, 6.3% to 12.0% per annum for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2022 while the coupon rates of such borrowings ranged from 6.9% to 15.5%, 6.8% to 15.5%, 6.0% to 12.8%, 6.2% to 12.0% per annum for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2022. We have not encountered any difficulties in borrowing from commercial banks during the Track Record Period. As the length of our relationship with the commercial banks grows, we are more inclined to obtain loan approval with better terms from commercial banks. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our bank borrowings amounted to RMB68.1 million, RMB118.9 million, RMB211.6 million and RMB333.4 million, accounting for 38.6%, 39.2%, 39.1% and 51.0% of our total borrowings, respectively. As of the Latest Practicable Date, we had unutilized banking facilities of approximately RMB152.4 million.

Lease liabilities

Lease liabilities represent the present value of outstanding lease payments under our lease agreements, which were secured and unguaranteed. The following table sets forth our lease liabilities as of the dates indicated.

	As of December 31,			As of June 30,	As of September 30,
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Current	7,321	6,469	10,454	8,899	7,747
Non-current	23,392	17,625	10,709	8,959	7,398
Total lease liabilities	30,713	24,094	21,163	17,858	15,145

As of December 31, 2019, 2020 and 2021 and June 30, 2022 our current and non-current lease liabilities were RMB30.7 million, RMB24.1 million, RMB21.2 million and RMB17.9 million, respectively. These lease liabilities mainly related to lease contracts of our offices and warehouses.

Financial liabilities at FVTPL

At the level of LX Technology, we have completed Series A Investment, Series B Investment, Series C Investment, Series D-1 Investment, Series D-2 Investment and Series D-3 Investment. For further details of the identity and background of the Pre-[**REDACTED**] Investors, and the principal terms of the Pre-[**REDACTED**] Investments, please refer to "History, Reorganization and Corporate Structure – Pre-[**REDACTED**] Investments." As the Pre-[**REDACTED**] Investors were granted the right to require our Company to redeem all or a portion of the shares they held if the [**REDACTED**] is not consummated on or prior to December 31, 2023 or upon the occurrence of certain specified events, the equity investment by these Pre-[**REDACTED**] Investors are recognized as financial liabilities measured at FVTPL in our consolidated statements of financial position.

As of December 31, 2019, 2020 and 2021 and June 30, we recorded financial liabilities measured at FVTPL of RMB256.8 million, RMB606.5 million, RMB1,117.1 million and RMB1,080.7 million, respectively. At September 30, 2022, the carrying amount of our financial liabilities at FVTPL were RMB1,082.6 million, which were unsecured and unguaranteed. In addition, we recorded fair value loss in connection with such liability in our consolidated statements of profit or loss and other comprehensive income with references to the valuation report, amounting to RMB10.1 million, RMB189.7 million and RMB433.9 million, respectively, for the years ended December 31, 2019, 2020 and 2021. Furthermore, we recorded fair value gain in connection with such liability in our consolidated statements of profit or loss and other comprehensive income with reference to the valuation report, amounting to RMB36.4 million for the six months ended June 30, 2022. These amounts were also credited to our consolidated statements of financial position and thus resulted in increased balance of such liability. Therefore, these fair value changes will have no impact on our cash position or capital resources if the [**REDACTED**] is consummated on or prior to December 31, 2023. Upon the [**REDACTED**] and the conversion of the Preferred Shares from the series of investments after reorganization into our ordinary shares, such liability will be derecognized and accounted for as an increase in share capital and share premium. For further information regarding the financial liabilities measured at FVTPL including the redemption features, see Note 25 to the Accountant's Report in Appendix I to this document for details.

Our Group's financial liabilities at FVTPL are measured at fair value for financial reporting purposes. Our Directors are responsible for determining the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value, we use market-observable data to the extent it is available. Where Level 1 inputs, which are accessible quoted prices (unadjusted) in active markets for identical assets or liabilities, are not available, we determine the appropriate valuation techniques and inputs for fair value measurements and work closely with the qualified valuer to establish the appropriate valuation techniques and inputs to the model. For more details of fair value measurement, see Note 33 of the Accountants' Report in Appendix I to this document.

Our Directors are satisfied with the valuation exercise for financial liabilities categorized as Level 3 financial instruments in the historical financial information for the purpose of preparing the consolidated financial statements for the Track Record Period as contained in the Accountants' Report set out in Appendix I to this document, after having (i) considered necessary financial and non-financial information so as to perform valuation procedures; (ii) reviewed the relevant subscription agreements of financial liabilities at FVTPL; (iii) engaged and discussed with an independent professional valuer and provided the valuer with all relevant information that might affect the valuation; (iv) reviewed the valuation report prepared by the third-party valuer regarding the fair value of the Level 3 financial liabilities; and (v) discussed with the Reporting Accountants of the Company in respect of the key assumptions used in the valuation models.

The Sole Sponsor has performed certain due diligence work in relation to the valuation of the Group's Level 3 financial liabilities, including: (i) discussed with the Company to understand the nature and details of the Group's Level 3 financial liabilities, internal policies and procedures regarding valuation assessment of Level 3 financial liabilities, and the valuation model and methodologies adopted by the Group for such valuation assessment; (ii) discussed with the Reporting Accountants on its work performed in this regard; (iii) reviewed relevant notes in the Accountants' Report as set out in Appendix I to this document; (iv) obtained and reviewed the relevant valuation report and valuation analysis prepared by the independent professional valuer, and public information on valuation of Level 3 financial liabilities disclosed by comparable company(ies); and (v) interviewed the relevant independent professional valuer about the key basis, methodologies and assumptions adopted for their valuation of Level 3 financial liabilities. Based on the due diligence work performed as described above, and having taken into account (i) the abovementioned Directors' view and the work performed by the Group's management regarding valuation of Level 3 financial liabilities; and (ii) the relevant audit procedures performed by the Reporting Accountants regarding valuation of Level 3 financial liabilities, nothing has come to the Sole Sponsor's attention that would reasonably cast doubt in any material aspects on the valuation of Level 3 financial liabilities as reflected in the historical financial information of the Group as a whole as set out in Appendix I to this document.

Details of the fair value measurement of financial liabilities at FVTPL categorized within level 3, including but not limited to the fair value hierarchy, the valuation techniques, the significant unobservable inputs and the relationship of unobservable inputs to fair value, are disclosed in Note 33 to the Accountants' Report in Appendix I to this document, for which the Reporting Accountants have carried out the relevant procedures in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountants' opinion on the historical financial information of the Group for the Track Record Period as a whole is set out on page I-2-A of Appendix I to this document.

CONTINGENT LIABILITIES

We did not have any material contingent liabilities as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively.

Except as disclosed above, as of September 30, 2022, being the indebtedness date for the purpose of the indebtedness statement, we did not have any outstanding mortgages, charges, debentures, other debt securities issued or outstanding, and authorised or otherwise created but unissued, bank overdrafts, other borrowings, liabilities under acceptance (other than normal trade bills), acceptance credits or other similar indebtedness, hire purchase commitments, guarantees or other material contingent liabilities. Our Directors have confirmed that there had been no material change in our indebtedness since September 30, 2022 and up to the Latest Practicable Date.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios during the Track Record Period.

	As of and for the year ended December 31,			As of/ for the six months ended June 30,
	2019	2020	2021	2022
Revenue				
Total revenue growth(1)	N/A	104.3%	30.2%	59.1%
Profitability				
Gross profit margin(2)	16.0%	14.4%	14.5%	11.7%
Adjusted EBITDA margin(3) (a non-IFRS measure)	7.4%	16.1%	16.8%	14.9%
Liquidity				
Current ratio(4)	0.82	0.93	0.74	0.71
Gearing ratio(5)	1,819.8%	N/M(6)	N/M(6)	N/M(6)
Inventory turnover days(7)	31.4	35.0	31.5	16.4
Trade and lease receivables turnover days(8)	24.8	15.1	12.4	11.8
Trade payables turnover days(9)	61.9	50.3	32.7	22.5

Notes:

(1) Total revenue growth equals revenue for the relevant year/period divided by revenue for the previous year/period, multiplied by 100%.

(2) The calculation of gross profit margin is based on gross profit for the relevant year/period divided by revenue for the respective year/period and multiplied by 100%.

(3) Adjusted EBITDA margin (a non-IFRS measure) equals adjusted EBITDA (a non-IFRS measure) divided by revenue for the year/period and multiplied by 100%. See "– Non-IFRS Measure" above.

(4) The calculation of current ratio is based on current assets divided by current liabilities as of the year end or as of the six months ended June 30 and multiplied by 100%.

(5) The calculation of gearing ratio is based on total debt for the year/period divided by total equity for the respective year/period and multiplied by 100.0%.

(6) The gearing ratio as of December 31, 2020, December 31, 2021 and June 30, 2022 were not meaningful because the Company recorded deficit equity as of December 31, 2020, December 31, 2021 and June 30, 2022.

(7) Inventory turnover days was calculated based on the average of opening and closing inventory balance for the relevant year/period, divided by the cost of sales for the same year/period, and multiplied by the number of days in the relevant year/period, being 365 or 180 days. For details of our analysis, see "– Discussion of Certain Consolidated Statements of Financial Position Items – Assets – Inventories" in this section.

(8) Trade and lease receivables turnover days for a year/period equals the average of opening and closing trade and lease receivables balance divided by revenue for the relevant year/period and multiplied by the number of days in the relevant year/period, being 365 or 180 days. For details of our analysis, see "– Discussion of Certain Consolidated Statements of Financial Position Items – Assets – Trade and lease receivables" in this section.

(9) Trade payables turnover days for a year/period equals the average of opening and closing trade payables balance divided by cost of sales for the relevant year/period and multiplied by the number of days in the relevant year/period, being 365 or 180 days. For details of our analysis, see "– Discussion of Certain Consolidated Statements of Financial Position Items – Liabilities – Trade payables" in this section.

We recorded revenue growth of 104.3% from 2019 to 2020, 30.2% from 2020 to 2021 and 59.1% from the six months ended June 30, 2021 to the six months ended June 30, 2022. Our gross profit margin narrowed from 16.0% in 2019 to 14.4% in 2020, and remained stable at 14.5% in 2021 and narrowed to 11.7% for the six months ended June 30, 2022. See "– Discussion of Results of Operations" in this section for a discussion of the factors affecting our results of operations during the respective years/periods.

Our adjusted EBITDA margin, which is a non-IFRS measure, increased from 7.4% in 2019 to 16.1% in 2020, and further increased to 16.8% in 2021, primarily due to the large amount of fair value change of financial liabilities at FVTPL was added back as part of the non-IFRS adjustment and therefore the improvement of adjusted EBITDA margin (a non-IFRS measure) was noted. Our adjusted EBITDA margin, which is a non-IFRS measure, decreased from 20.6% for the six months ended June 30, 2021 to 14.9% for the six months ended June 30, 2022.

Our current ratio increased from 0.82 times as of December 21, 2019 to 0.93 times as of December 31, 2020, primarily due to the increase in current assets outpaced the increase in current liabilities. The increase in current assets was primarily due to (i) the increase in inventories of RMB76.1 million; and (ii) the increase in other receivables, deposits and prepayments of RMB56.7 million. Our current ratio decreased from 0.93 times as of December 31, 2020 to 0.74 times as of December 31, 2021, primarily due to the increase in current liabilities outpaced the increase in current assets. The increase in current liabilities was primarily due to the increase in borrowings of current portion of RMB176.9 million in order to raise fund to support our business expansion plan. Our current ratio decreased from 0.74 times as of December 31, 2021 to 0.71 times as of June 30, 2022, primarily due to the increase in current liabilities outpaced the increase in current assets. The increase in current liabilities was primarily due to the increase in trade payables from RMB68.3 million in 2021 to RMB120.7 million for the six months ended June 30, 2022, which was primarily due to the purchase of de-commissioned devices.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital Expenditures

We regularly incur capital expenditures to expand our operations and upgrade our facilities. Our capital expenditures primarily consisted of expenditures on the additions to property, plant and equipment during the Track Record Period. In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, we incurred capital expenditures of RMB209.3 million, RMB308.5 million, RMB439.5 million, RMB262.0 million and RMB166.7 million, respectively. Historically, we have funded our capital expenditures mainly through cash generated from our operations, bank borrowings, finance leases and funds raised from the Pre-[**REDACTED**] investments.

We expect our capital expenditures to increase in the future as our business continues to grow, which we will use primarily for our purchase of IT devices. We expect to fund these capital expenditures through a combination of cash generated from our operations, bank borrowings, finance leases and the net proceeds received from the [**REDACTED**].

Capital Commitments

Our capital commitments represented capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had capital commitments related to capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the historical financial information of RMB3.2 million, RMB11.3 million, RMB8.9 million and RMB7.9 million, respectively. The significant increase in our capital commitments from RMB3.2 million to RMB11.3 million were mainly related to new purchase agreements we entered into with suppliers in order to procure more IT devices.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. These transactions primarily include but not limited to (i) sales to related parties, including provision of device recycling business, provision of device subscription services and provision of IT technical subscription services, (ii) purchase of IT devices from related parties, (iii) services received from related parties, including marketing and promotion services, maintenance services and logistics services, and (iv) borrowings from related parties, which are secured by IT devices. The related parties are subsidiaries, joint ventures, affiliates of JD.com, and companies owned by the controlling shareholder of JD.com. JD.com is our strategic Shareholder and business partner.

The related parties providing the loans to the Group are Guangzhou Zhijun Financial Leasing Co., Ltd. (廣州知駿融資租賃有限公司) ("**Guangzhou Zhijun**") and Shanghai Banghui Commercial Factoring Co., Ltd. (上海邦匯商業保理有限公司) ("**Shanghai Banghui**"), both are indirect wholly owned subsidiaries of Jingdong Technology Holding Co., Ltd. (京東科技控股股份有限公司), a company owned by JD.com and its controlling shareholder. For details of our relationship with JD.com, please see "Business – Sales and Marketing – Collaboration with strategic shareholders and business partners." During the Track Record Period, the total amount of the loans from Guangzhou Zhijun and Shanghai Banghui was RMB40.0 million and RMB6.9 million, respectively. As of December 31, 2019, 2020 and 2021 and June 30, 2022, (i) we had outstanding amount to Guangzhou Zhijun of nil, nil, RMB28.4 million and RMB17.7 million, respectively, and (ii) we had no outstanding amount to Shanghai Banghui.

Save for the borrowings from related parties, the aforesaid related party transactions were trade in nature. Our transaction amounts with the related parties fluctuated during the Track Record Period due to the following reasons:

- ***Purchases of IT equipment***: The following table sets forth a breakdown of purchase of IT equipment from related parties during the Track Record Period.

	Year ended December 31,			Six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Purchase of IT equipment from related parties:	73,798	52,708	41,513	25,552	14,182
Purchase of de-commissioned IT devices from JD.com	56,920	33,370	15,464	7,201	5,754
Purchase of IT devices for subscription from the related parties	16,878	19,338	26,049	18,351	8,428

The decrease in purchase of IT equipment from related parties from 2019 to 2021 was primarily due to the decrease in purchase of de-commissioned IT devices from JD.com from 2019 to 2021, which was mainly affected by the disposal plans and less supply of de-commissioned IT devices by the related parties, partially offset by the increase in purchase of IT devices for subscription from the related parties from 2019 to 2021 to satisfy the growing demands for our IT subscription devices which was in line with our business growth. The decrease in purchase of IT equipment from related parties from RMB25.6 million for the six months ended June 30, 2021 to RMB14.2 million for the six months ended June 30, 2022 was primarily due to the decrease in purchase of IT devices for subscription from the related parties and the decrease in purchase of de-commissioned IT devices, which was mainly affected by the disposal plans and less supply of de-commissioned IT devices by the related parties.

- ***Marketing, promotion and maintenance services***: In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, payment for marketing and promotion services provided by related parties was RMB5.0 million, RMB8.8 million, RMB9.6 million, RMB5.9 million and RMB3.9 million, respectively. In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, payment for maintenance services provided by related parties was RMB7.3 million, RMB7.2 million, RMB14.4 million, RMB5.5 million and RMB5.4 million, respectively. Payment for marketing and promotion services to related parties mainly consist of expenses of advertising and promotion activities paid to JD.com. Payment for maintenance services to related parties mainly represents expenses paid to JD.com for suppliers referral and customer acquisition expenses paid to JD.com. The increase in payment for marketing and promotion services and maintenance services provided by related parties as a whole from 2019 to 2020 was mainly due to (i) the increase in our procurement volume of de-commissioned IT devices from suppliers referred to us by JD.com from approximately RMB103.9 million in 2019 to RMB140.1 million in 2020, and (ii) our increasing sales of subscription services and de-commissioned devices through e-commerce platform of JD.com from approximately RMB36.7 million in 2019 to RMB59.8 million in 2020. The increase in payment for marketing and promotion services and maintenance services provided by related parties as a whole from 2020 to 2021 was mainly due to the increase in our procurement volume of de-commissioned IT devices from suppliers referred to us by JD.com from approximately RMB140.1 million in 2020 to RMB312.5 million in 2021. The decrease in payment for marketing and promotion services provided by related parties from RMB5.9 million for the six months ended June 30, 2021 to RMB3.9 million for the six months ended June 30, 2022 was mainly due to the reduced advertising and promotion activities with JD.com. The payment for maintenance services provided by related parties remained relatively stable at RMB5.5 million for the six months ended June 30, 2021 and RMB5.4 million for the six months ended June 30, 2022 due to the increase in our procurement volume of de-commissioned IT devices from suppliers referred to us by JD.com from approximately RMB111.4 million for the six months ended June 30, 2021 to RMB167.1 million for the six months ended June 30, 2022. Our sales of subscription services and de-commissioned devices through e-commerce platform of JD.com decreased from approximately RMB31.0 million for the six months ended June 30, 2021 to RMB25.5 million for the six months ended June 30, 2022.

To the best knowledge of our Directors having made all reasonable enquiries, JD.com had suppliers and customers other than our Group for transactions of nature identical to the above during the Track Record Period. Our Directors are of the view that each of the related party transactions set out in Note 34 to the Accountant's Report included in Appendix I to this document was conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or cause our historical results to become non-reflective of our future performance.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet commitments or arrangements.

FINANCIAL RISKS DISCLOSURE

Our activities expose us to a variety of financial risks: market risk (including interest rate risk and other price risk), credit risk and liquidity risk. Our overall risk management procedures focus on the unpredictability of financial markets and seek to minimize potential adverse effects on our financial performance.

Market Risk

Currency risk

Certain bank balances and borrowings are denominated in foreign currency of respective group entities which expose our Group to foreign currency risk. Our Group currently does not have a foreign exchange hedging policy. However, the management of our Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to restricted deposits, fixed-rate borrowings and lease liabilities. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management considers that the exposure of fair value interest rate risk in relation to restricted deposits, fixed-rate borrowings and lease liabilities and cash flow interest rate risk arising from variable-rate bank balances is insignificant. No sensitivity analysis is presented accordingly.

Other price risk

The Group is exposed to other price risk arising from the Preferred Shares and series of investments which was classified as financial liabilities at FVTPL.

Credit Risk

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and lease receivables, other receivables and deposits, restricted deposits as well as bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Group had no material concentration of credit risk as of December 31, 2019, 2020 and 2021 and June 30, 2022.

The Group performed impairment assessment under ECL model. For details of information about the Group's credit risk management, maximum credit risk exposures and the related impairment assessment, please refer to Note 32(b) to the Accountant's Report included in Appendix I to this document.

Liquidity Risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilization of borrowings and ensures compliance with loan covenants. The Group relies on borrowings as a significant source of liquidity. As at December 31, 2019, 2020 and 2021 and June 30, 2022, the Group has available unutilized bank loan facilities of approximately RMB65.5 million, RMB103.8 million, RMB172.1 million and RMB97.1 million, respectively.

COVID-19 OUTBREAK AND EFFECTS ON OUR BUSINESS

Impacts of the COVID-19 Outbreak on Our Business

Towards the end of 2019, an outbreak of respiratory illness caused by a novel coronavirus (COVID-19) quickly spread globally. In March 2020, the World Health Organization defined the COVID-19 outbreak as a pandemic. To prevent local transmission of COVID-19, the PRC government has imposed restricted measures across the PRC.

In 2020, we temporarily closed (i) for our office in Wuhan in late January 2020 and resumed operation in April 2020, and (ii) our all other offices for a week in February 2020. In 2022, due to the resurgence of COVID-19 variants in China, our headquarters and office in Shenzhen were temporarily closed for a week in March 2022, our offices in Shanghai was closed in April 2022 and resumed operation in June 2022, and our office in Chengdu was closed for less than a week in early September 2022. Our employees worked from home during the temporary closure of offices. Our subsidiaries in other cities assisted these offices in handling the service requests from nearby cities. There was no loss of revenue or penalties due to suspension or cancellation of business activities or revenue loss of our Group. Our normal operations have not been adversely interrupted during the COVID-19 pandemic. Details as follows:

- *Device recycling business*. Device recycling business can effectively help enterprises to cash out from de-commissioned devices at the best price and further make the best use of enterprise resources. SMEs that closed down during the COVID-19 pandemic have generated more supply of de-commissioned devices for device recycling business and market opportunities for DLM solution providers.

- *Device subscription services*. The COVID-19 pandemic has driven most enterprises, SMEs in particular, to transform their operation mode into asset-light mode and hence turn to adopt DLM solutions. It has facilitated the device subscription service market in China during the COVID-19 pandemic. As a result, the demand of our device subscription services remained strong. Even though the short-term device subscription services for exhibitions and conferences and other business activities have been adversely impacted (Number of our short-term device subscription customers decreased from 6,317 as of December 31, 2019 to 4,103 as of December 31, 2020, and increased to 4,538 as of December 31, 2021. Number of our short-term device subscription customers decreased from 2,881 as of June 30, 2021 to 2,768 as of June 30, 2022), we seized the market opportunities for providing enterprise customers with subscription service for IT devices such as laptop computers when their employees worked from home.

- *IT technical subscription services*. IT technical subscription services are usually coupled with device subscription services provided by DLM solution providers. It not only provides professional IT technical services for enterprises but also help enterprises reduce related IT maintenance and labor costs during the COVID-19 pandemic, further propelling enterprises to seek for more flexible IT solutions, including DLM solutions. Even though we were not able to provide door-to-door services for IT technical subscription during the aforesaid temporary office closures, our IT technical engineers could still provide online services through remote access to assist customers in solving IT technical issues during the course of their subscriptions.

In response to the recent resurgences of COVID-19 pandemic in China, we have adopted business contingency plans to mitigate the potential adverse impact on our business operations, including, among others, (i) we have established a general warehouse in Wuhan in 2021 to store our IT devices, which functions as a nationwide allocation center to allocate the IT devices to sub-warehouses in case of supply shortage during COVID-19; (ii) we proactively collaborated with logistic service providers to reduce the negative effect brought by COVID-19 outbreak on the delivery of IT devices and involved our customer service staffs in intra-city delivery to increase delivery flexibility; (iii) we provided remote technical support to our customers through telephone and online communications during the course of their subscriptions; and (iv) we have implemented stringent hygiene and precautionary measures at our offices to ensure the safety of our staff and regularly monitor the new cases of COVID-19 in the provinces where we have operations.

As of the Latest Practicable Date, based on the growth of our revenue (i) for the six months ended June 30, 2022 (as compared to the same period in 2021); and (ii) for the three months ended September 30, 2022 (as compared to the same period in 2021), our Directors believe that the impact of the COVID-19 on our revenue is not substantial and our financial performance, continuing business operation, sustainability, and its expansion plan had not been materially and adversely affected by the COVID-19 outbreak.

Our Remedial Measures

We have employed various measures to mitigate the impact of the COVID-19 outbreak on our business operations and customer relationships. Such remedial measures include making timely upgrades to our technology infrastructure to facilitate a seamless remote working environment, leveraging our cloud-based technologies to ensure efficient delivery of our DLM solutions, and maintaining regular, interactive online communications with our customers, and travel restrictions or suspension. We also provided our employees with masks, hand sanitizers and other protective equipment immediately after the outbreak, which had increased and may continue to increase our operations and support costs. In line with government guidelines, we have closely tracked the health status of our employees and we routinely check their body temperature before they enter our offices and practice social distancing. We plan to continue to take these remedial measures and may implement additional measures as necessary to ease the impact of the COVID-19 outbreak on our business operations.

DIVIDENDS

As advised by our Cayman Islands legal advisor, under Cayman Islands law, a position of accumulated losses and net liabilities does not necessarily restrict our Company from declaring and paying dividends to our Shareholders out of either our profit or our share premium account, provided this would not result in our Company being unable to pay its debts as they fall due in the ordinary course of business. As we are a holding company incorporated under the laws of the Cayman Islands, the payment and amount of any future dividends will also depend on the availability of dividends received from our subsidiaries. Any dividends we pay will be determined at the absolute discretion of our Board, taking into account factors including our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that our Board deems to be appropriate. Our shareholders may approve, in a general meeting, any declaration of dividends, which must not exceed the amount recommended by our Board.

No dividends have been paid or declared by our Company since its incorporation or any member of the Group during the Track Record Period and up to the Latest Practicable Date. Currently, we do not have a formal dividend policy or a fixed dividend distribution ratio.

WORKING CAPITAL SUFFICIENCY

Our Directors are of the opinion that, taking into account the estimated net proceeds from the [**REDACTED**] and the financial resources available to us, including expected cash generated from operating activities, we have sufficient working capital for our present requirements and for the next 12 months from the date of this document.

The Group principally relies on (i) net cash inflow from operating activities, (ii) borrowings from bank and other financial institutions and (iii) equity financing for its business operation. Taking into account the financial resources available to the Group, including: (i) net cash from operating activities; (ii) cash and cash equivalent of RMB206.0 million as of June 30, 2022; (iii) unutilized banking facilities of RMB153.6 million as of September 30, 2022; (iv) inventories, which primarily consist of IT devices held for sale, of RMB63.1 million as at June 30, 2022; and (v) [**REDACTED**] of the net proceeds from the [**REDACTED**] as our working capital upon the [**REDACTED**]. As the level of our net cash flow from operating activities may fluctuate, in the event that our Group does not possess sufficient working capital to finance our operations and/or repay our borrowings, we will satisfy our funding needs by (i) making use of the unutilized banking facilities as detailed in the subsection headed "– Indebtedness" in this section, (ii) obtaining new bank borrowings and equity financing, and/or (iii) selling the used IT devices and our inventories if needed. In addition, the [**REDACTED**] will also provide a solid platform for us to raise capital from the market through equity fundraising and issuance of debt securities to support our future business expansion and long-term development. Having considered the aforesaid, our Directors are of the view, and the Sole Sponsor concurs, that we will have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document.

DISTRIBUTABLE RESERVES

As of June 30, 2022, the Company did not have any distributable reserves.

[**REDACTED**]

[**REDACTED**] to be borne by us are estimated to be approximately RMB[**REDACTED**] million (assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**], being the mid-point of the indicative [**REDACTED**] range of HK$[**REDACTED**] to HK$[**REDACTED**] per [**REDACTED**], assuming no exercise of the [**REDACTED**]), including [**REDACTED**] commissions and fees of approximately RMB[**REDACTED**] million, and non-[**REDACTED**] related expenses of approximately RMB[**REDACTED**] million, which consist of accounting and legal fees and expenses of approximately RMB[**REDACTED**] million and other fees and expenses of approximately RMB[**REDACTED**] million. During the Track Record Period, we incurred [**REDACTED**] of approximately RMB[**REDACTED**] million, out of which approximately RMB[**REDACTED**] million was charged to our consolidated statements of profit or loss, and approximately RMB[**REDACTED**] million was recognized as other receivables, deposits and prepayments in the consolidated statement of financial position as of June 30, 2022 to be accounted for as a deduction from equity upon the [**REDACTED**]. After June 30, 2022, approximately RMB[**REDACTED**] million is expected to be charged to our consolidated statements of profit or loss, and approximately RMB[**REDACTED**] million is expected to be accounted for as a deduction from equity upon the [**REDACTED**]. Our [**REDACTED**] as a percentage of gross proceeds is [**REDACTED**]%, assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the indicative [**REDACTED**] range stated in this document) and assuming no exercise of the [**REDACTED**]. The [**REDACTED**] above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED TANGIBLE ASSETS LESS LIABILITIES OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The following unaudited pro forma statement of adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the [**REDACTED**] on the audited consolidated tangible assets less liabilities of the Group as if the [**REDACTED**] had taken place on June 30, 2022.

The unaudited pro forma statement of adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the consolidated tangible assets less liabilities of the Group attributable to owners of the Company as of June 30, 2022 or any future dates following the [**REDACTED**].

	Audited consolidated tangible assets less liabilities of the Group attributable to owners of the Company as of June 30, 2022	Estimated net proceeds from the [REDACTED]	Unaudited pro forma adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company as of June 30, 2022	Unaudited pro forma adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company as of June 30, 2022 per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HKD*
	Note 1	*Note 2*		*Note 3*	*Note 4*
Based on a minimum [**REDACTED**] of [HK$[**REDACTED**]] per [**REDACTED**]	(612,499)	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on a maximum [**REDACTED**] of [HK$[**REDACTED**]] per [**REDACTED**]	(612,499)	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

Notes:

1. The audited consolidated tangible assets less liabilities of the Group attributable to owners of the Company as at June 30, 2022 is based on the consolidated net liabilities of the Group amounted to [RMB612,499,000] extracted from the accountants' report set out in Appendix I to this document.

2. The estimated net proceeds from the [**REDACTED**] are based on [**REDACTED**] at indicative [**REDACTED**] of [HK$[**REDACTED**]] and [HK$[**REDACTED**]] per [**REDACTED**], being the low-end and high-end of the stated [**REDACTED**] range, respectively, after deduction of the estimated [**REDACTED**] commissions and fees and other related expenses incurred and to be incurred by the Group (excluding [**REDACTED**] recognized in profit or loss prior to June 30, 2022). It does not take into account any shares which may be redesignated as ordinary shares from the Company's preferred shares upon completion of the [**REDACTED**], any shares which may be issued upon the exercise of the [**REDACTED**] or any shares which may be issued or repurchased by the Company pursuant to the Company's general mandates.

   For the purpose of this unaudited pro forma financial information, the estimated net proceeds from the [**REDACTED**] is converted from Hong Kong dollars into Renminbi at an exchange rate of HK$1.1041 to RMB1.00, which was the exchange rate prevailing on October 17, 2022 with reference to the rate published by the People's Bank of China. No representation is made that Hong Kong dollar amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at all.

3. The unaudited pro forma adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company as of June 30, 2022 per Share has been arrived on the basis of a total of [**REDACTED**] shares in issue assuming that the Capitalization Issue and [**REDACTED**] has been completed on June 30, 2022 and without taking into account the [**REDACTED**] shares (after the effect of Capitalization Issue) held by LX Brothers and Beauty Bear for employee incentive platforms of the Group, the [**REDACTED**] shares (after the effect of Capitalization Issue) which may be redesignated as ordinary shares from the Company's preferred shares upon completion of the [**REDACTED**], any shares which may be issued upon the exercise of the [**REDACTED**] or any shares which may be issued or repurchased by the Company pursuant to the Company's general mandates.

4. The unaudited pro forma statement of adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company per Share as at June 30, 2022 is converted from Renminbi to Hong Kong dollars at an exchange rate of RMB1.00 to HK$1.1041, which was the exchange rate prevailing on October 17, 2022 with reference to the rate published by the People's Bank of China. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

5. No adjustment has been made to the unaudited pro forma adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company as of June 30, 2022 to reflect any trading result or other transaction of the Group entered into subsequent to June 30, 2022. In particular, the unaudited pro forma adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company as shown on II-1 have not been adjusted to illustrate the effect of the following:

   Upon completion of the [**REDACTED**], the Company's preferred shares existing on June 30, 2022 would have been redesignated as ordinary shares the carrying amount of the Company's preferred shares on June 30, 2022 of [RMB1,080,666,000], assuming no further changes in fair values upon [**REDACTED**], would have been reclassified to equity. The redesignation of the Company's preferred shares would have increased the total number of shares in issue based on the assumption stated in Note 3 above by [**REDACTED**] shares (after the effect of Capitalization Issue) and would have adjusted the unaudited pro forma adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company as of June 30, 2022 by [RMB[**REDACTED**]].

   The effect of the redesignation of the Company's preferred shares into ordinary shares of the Company (the "**Subsequent Transactions**") would have adjusted the unaudited pro forma adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company as at June 30, 2022 by [RMB[**REDACTED**]] to unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company of [RMB[**REDACTED**]] based on an [**REDACTED**] of [HK$[**REDACTED**]] per [**REDACTED**] and unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company of [RMB[**REDACTED**]] based on an [**REDACTED**] of [HK$[**REDACTED**]] per [**REDACTED**] and would have increased the total number of shares in issue by [**REDACTED**] shares to a total of [**REDACTED**] shares in issue. Had such Subsequent Transactions been taken into account, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as of June 30, 2022 per Share would be [RMB[**REDACTED**]] (equivalent to [HK$[**REDACTED**]], based on an exchange rate of RMB1.00 to HK$1.1041 as detailed in Note 4 above) based on an [**REDACTED**] of [HK$[**REDACTED**]] per [**REDACTED**] and [RMB[**REDACTED**]] (equivalent to [HK$[**REDACTED**]], based on an exchange rate of RMB1.00 to HK$1.1041 as detailed in Note 4 above) based on an [**REDACTED**] of [HK$[**REDACTED**]] per [**REDACTED**], respectively. It does not take into account the [**REDACTED**] shares (after the effect of Capitalization Issue) held by LX Brothers and Beauty Bear for employee incentive platforms of the Group, any shares which may be issued upon the exercise of the [**REDACTED**] or any shares which may be issued or repurchased by the Company pursuant to the Company's general mandates.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this document, there had been no material adverse change in our financial or trading position or prospects since June 30, 2022, being the end date of our latest audited financial statements, and there had been no event since June 30, 2022 that would materially affect the information shown in the Accountant's Report set out in Appendix I.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.